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In Two Sections—Section One

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1970 — A Decision Year For Blue Chip Stocks

By **GEORGE A. CHRISTY***

Professor of Business Administration
North Texas State University
Denton, Texas

The disadvantage to investors of owning bonds in an inflationary era is both well-publicized and widely acted on, as the long fall in bond prices since 1946 has shown. (1) Less broadly acknowledged, or considered, is the analogous disadvantage of holding blue-chip common stocks through a decade or more of 3-4 per cent inflation. Yet very likely it is a spreading recognition of this principle which has explained the failure since 1965 of blue-chip equities to rise in step with an expanding economy and increasing corporate profits. (2).

The purpose of this article is to show why blue-chip common stocks are unsatisfactory investments under prolonged price-level inflations, why their unattractiveness increases as inflation speeds up, and what choices are open to the investor concerned (as each should be) for preservation of his purchasing power.



George A. Christy

Analysis by Texan finance professor of the behavior of equities during inflationary and non-inflationary periods develops the point that the ending of 1969 could usher in a decisive year for blue chips. His case for growth stocks' declining appeal and blue chips' resurrection is predicated on the maintenance of a firm monetary-fiscal anti-inflationary posture until the results sought are achieved. A return to 1.5 per cent price inflation rate, he says, would raise the real return for old-line blue chips at a relatively faster rate than for growth companies. If inflation is not vanquished, then the investor is said to have no other choice than to speculate. Right now, if he is uncertain, the investor is advised of two alternatives he could pursue: one, he could play the growth stock game or, two, "trade" in blue chips.

Real Return From Securities Investment

Besides the usual factors of dividends or interest, growth rate and taxes, the investor must also consider what happens to the buying power of his money over the span of his investment. He cannot treat a \$100 investment that pays back \$125 as a 25 per cent return if in the interval the consumer price index rises from 100 to 125. Deflating funds invested and funds returned by their respective price indices, it is obvious that the addition to his real wealth is zero:

\$100 \$125

100 equals 125

If his dollar return is taxable, his monetary gain becomes a real loss, since something less than \$125 will be left after taxes to divide by the 125 price index.

The foregoing paragraph identifies the five factors that enter into a correct calculation of an investor's real return, i.e., his return after taxes in purchasing power equivalent to that originally invested. These are (1) dividend or interest, (2) growth of dividend through time, if equity is held, (3) income tax, (4) inflation or deflation, and (5) original investment. If we use the figure 100, or par, for the original investment and reduce all other magnitudes to annual percentage rates, it is then possible to express the investor's real return as a single annual rate figure. (The method shown is completely valid only for equities and perpetual bonds. However, the margin of error in applying it to long-dated bonds is trivial.)

Several lessons for investors operating in an inflationary climate should be clear.

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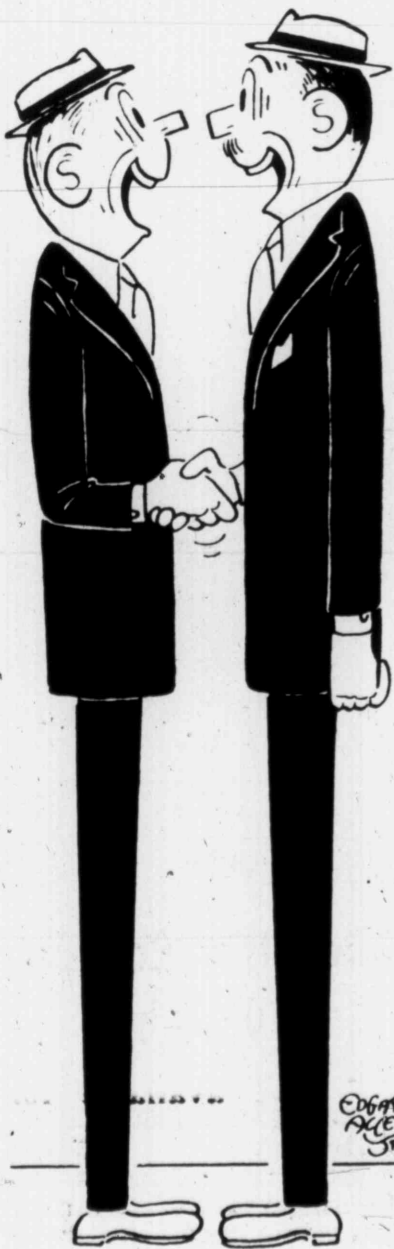
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RICHARD M. KING

Security Analyst
Emanuel, Deetjen & Co., New
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Exchange

Philip Morris

Sales and earnings of Philip Morris have grown at compound annual rates of 9 per cent and 11 per cent, respectively, over the past decade (12 per cent and 18 per cent during the last five years). The current year is expected to mark the seventeenth consecutive increase in both sales and earnings. Yet, in spite of this enviable record, the stock, at about 36, sells at a price-earnings ratio of only 13.1 times estimated fully-diluted 1970 profits of \$2.75 a share.

The stock's low valuation, in face of the company's achievements, clearly reflects the investment community's continuing skepticism concerning the future of the tobacco business. But at least as far as Philip Morris is concerned, I believe that these doubts are unjustified and that the shares of this growth enterprise are significantly underpriced.

The favorable record of Philip Morris arises from management's ability to foresee new consumer trends and preferences and to capitalize on them. It long ago foresaw the growing trend of cigarette consumption in overseas markets, and exploited this to the point where foreign shipments now account for half of the company's unit volume (including shipments of non-consolidated foreign affiliates and licensees and wholly-owned consolidated subsidiaries). It foresaw the trend away from regular cigarettes in favor of filter tips, and went after the latter market to the point where filter-tips now contribute 95 per cent of total unit volume. It foresaw the growing popularity of extra-long 100-millimeter cigarettes, and has become the leader in this segment of the business. Finally, it was the first major tobacco company to start diversifying, although it has since been outstripped along this front by some of its rivals. As a result of these policies, Philip Morris operates in markets which have been growing at a worthwhile pace. Such growth is expected to continue, notwithstanding the modest attrition taking place in total U. S. cigarette usage, the recurrent anti-smoking publicity and the forthcoming elimination of cigarette advertising on U. S. television and radio.

As noted, 95 per cent of MO's production is of the filter-tip variety, and half of this (including non-consolidated affiliates and licensees) is sold in foreign markets. Free World filter-tip output, excluding the U. S., has grown at a 15 per cent compound rate since 1962. This expansion is attributable partly to growth in overall

consumption, and partly to switching from non-filters, which have been in a steady decline. With filter-tips accounting for about 70 per cent of the world market (excluding the U. S.), there is still ample room for this shift in consumer preference to contribute importantly to filter-tip growth.

Even in foreign countries where anti-smoking campaigns have been in effect and advertising restrictions imposed, cigarette usage has continued upward. This is true of such countries as the United Kingdom, Canada, Italy, West Germany, and Sweden. With foreign per capita consumption still well below the U. S. rate, and with income and living standards rising in many of the less developed areas, the upward trend is expected to continue.

Philip Morris' foreign shipments have expanded faster (24 per cent annually since 1962) than the over-all experience, spurred by enlarged production facilities, additional distribution outlets and entry into new areas. Equity in undistributed earnings, of non-consolidated affiliates and licensing fees are included in reported income.

In the U. S., filter-tip sales have risen at a satisfactory 6 per cent annual rate over the past six years, though at the expense of regular cigarettes. There is still room for the shift in consumer preference to continue for several years ahead (filter-tips accounted for over three-fourths of U. S. unit sales in 1969, up from 56 per cent in 1962). Led by Marlboro, Parliament and Benson & Hedges, Philip Morris brands have outpaced the industry trend with an 8 per cent growth rate since 1962, increasing their domestic market share from 9.3 per cent in that year to about 15 per cent in 1969.

Through a series of acquisitions, the company has diversified to the point where non-tobacco products now account for 20 per cent of total revenues (excluding excise taxes). These products include chewing gum, razor blades, men's shaving and toiletry products, surgical and other hospital supply materials, specialty papers, industrial adhesives and chemicals. Although non-tobacco areas have narrower profit margins, they are making a worthwhile contribution to current earnings improvement. In addition, the company recently acquired 53 per cent of the stock of Miller Brewing Co. for \$130 million cash. In the immediate future, however, the profits contribution from this source will be offset by larger interest costs on debt incurred by MO.

For the new year, I am looking for a sales increase of around 10 per cent. Aided by full year inclusion of the cigarette price boost which went into effect in mid-1969, and by a lower surtax rate, net in 1970 is expected to advance to a fully-diluted \$2.75 a share from \$2.25 (diluted) estimated for 1969.

This Week's Forum Participants

Phillip Morris, Richard M. King, Security Analyst Emanuel, Deetjen & Co., New York City, Members of the New York Stock Exchange.

Gondas Corporation, Joseph G. Barry, President, Joseph G. Barry & Sons, Daytona Beach, Fla.

JOSEPH G. BARRY

President
Joseph G. Barry & Sons
Daytona Beach, Fla.

Gondas Corporation

Some of the best profit opportunities are found in the least expected places, for growth is where you find it. The industrial supply business has been so stable and unexciting that a dynamic management could leave its competitors in the dust. This is what seems to be happening since Leonard Barr took the reins at Gondas Corporation, now the largest industrial supply company in Florida.

Since early 1968 he has led Gondas into four acquisitions, all related to the company's principal business. Gondas has branched out from Miami and West Palm Beach into Tampa and Orlando and has taken over two companies in Fort Lauderdale. Further acquisitions are being negotiated.

Gondas distributes industrial equipment and supplies from modern warehouses in Miami, Fort Lauderdale, West Palm Beach, Tampa and Orlando, Florida. It sells and services over 55,000 items from more than 500 manufacturers, including pumps, motors, machine tools, power transmission systems, controls, hydraulic and pneumatic tools, hoists, air compressors and shop equipment. It builds complete systems to customers' specifications.

Gondas sales nearly doubled in fiscal 1969 over the previous year, increasing to \$11.1 million, and showed further gains of 29 per cent during the first six months (ended October 31, 1969) of fiscal 1970, compared with a year ago. Although earnings have not grown as rapidly as sales, once the new acquisitions are digested and the costs of modernization have been absorbed the earnings could be most impressive.

Earnings were up 21 per cent to \$127,000 for the six months ended October 31, 1969, or 32 cents per share on 401,000 shares, compared with 36 cents per share on 292,000 shares a year ago, based on the average number of common shares and common share equivalents for the respective periods. This means that earnings growth has almost reached the point of offsetting and then outrunning the large increase in shares outstanding.

Gondas was founded in 1946. It acquired Palm Beach Machine & Supply Co. in 1958 and Southeast Machinery Co. in 1963. In 1968 it was transformed into a public company with Leonard C. Barr as Chairman of the Board. The new acquisition program brought in Southern Pump & Supply, Inc., Tampa, and Mill Supplies, Inc., Orlando, in 1968, and Builders Iron Products, Inc., and Peninsular Armature Works Broward, both of Fort Lauderdale, in 1969.

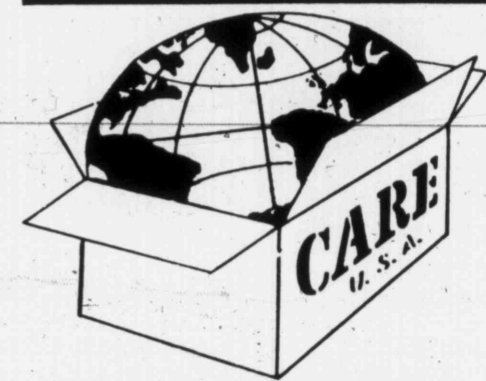
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A POINT OF VIEW

By MELCHIOR PALYI

Has Gold Been Dethroned?

According to its fierce detractors, gold has been demonetized when the two-tier market was instituted and the dollar subsequently went to a 25 per cent discount. Gold was "demonetized" again when the discount vanished and gold and the dollar met at the official par. In other words, gold ceases to have any monetary relevance when its market price goes up and when its price goes down, or so we are supposed to believe.

In fact, gold has been "demonetized" in and out of season, the wishful thinkers have announced time and again. Keynesians and Friedmanites, dispute with each other as they may, are united in this respect; both are intensely adverse to gold having any role in the monetary system, whereby limits are set on the Money Managers' inflationary propensity.

The truth is that gold had lost one of its monetary functions, or whatever residual of that function still existed — in the early 1920's. Gold coins are no longer in circulation. But the metal itself is what it has been, the ultimate reference of values and the prime liquid instrument on the global scene, the only one that is "liquid" in itself, without being legally or contractually redeemable into anything else — the "absolute" liquidity. All other forms of liquidity, including the newly concocted S.D.R.'s, are debt instruments which derive their value from the underlying claim, or right.

Protecting Gold Reserves

Actually, our monetary policies are substantially gold-oriented, a fact that is being widely ignored. And the same is true for the policies of the "senior" institutions among foreign central banks, meaning those which follow an independent policy line of their own. They have made and are making tremendous efforts to protect our gold reserve by risking theirs. As to our own money policies, their fundamental tenet is to preserve the remnants of our gold reserve, if only a \$9 billion (net) volume.

That is why the gold pool was dissolved in March 1968 and the non-official gold market left to its own devices: in order to protect the gold reserve of the U.S. Treasury against further threatening erosion. The gold had to be preserved, though it had (allegedly) "no function" in the monetary system, none that

the detractors of gold could recognize. The world's confidence in the dollar would evaporate with the reserve and the whole monetary system of the West would collapse.

Or, take the new technique of Special Drawing Rights, to be issued by the I.M.F. It has been widely hailed as a decisive step toward substituting pure paper in the place of gold. A more realistic appraisal has been offered by M. Pierre-Paul Schweitzer, the managing director of the I.M.F.:

Schweitzer Explains SDR's

"While special drawing rights will, I expect, eventually become a major component of international reserves, it is important at this stage to do nothing to undermine, and to do whatever is possible to strengthen, the traditional reserve components. The new facility is intended, when the need arises, to supplement, not to supplant, gold and foreign exchange. This is no more than common sense. Gold is a traditional means of international settlement and a point of reference for the values of national currencies. The value of special drawing rights is guaranteed in terms of a weight of gold. More than one half of all monetary reserves consists of gold, and it continues to be the basic element in the world monetary system."

It would be difficult to express the idea more clearly and more authoritatively: that the purpose of the S.D.R.'s is not to replace gold but to protect the gold reserve — of the United States, especially. They are substitutes, as it were, for the missing equilibrium in our balance of international payments. In other words, we are permitted to indulge in that many more payments deficits without losing gold and — which is the novel aspect — without incurring that much more short term debt.

All of which illustrates one essential role of gold in the monetary system. Without a "reasonable" reserve, no currency can stand up — unless it continuously runs an appreciable surplus in its payments balance and is expected to stay indefinitely in such a favorable position. Otherwise, it would lose whatever confidence it enjoys and its worldwide purchasing power would become the object of incalculably shifting evaluations.

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General Employment Enterprises

By IRA U. COBLEIGH,
Economist

Some comment on the expansion of the services sector of the economy and a review of an important employment agency company.

It has been observed that the service sector of the company is now overtaking the production of goods in Gross National Product. Companies in building maintenance, safety and security, funeral homes, computer services, beauty and weight control salons, career schools, car washes, insurance agencies, laundries, photographic developers, oil well service, catering, and employment agencies have waxed great in the past decade. Many of them have displayed notable expansions in earning power, quite amazing growth rates; and they've been going public in droves!

A representative issue in this ever broadening service field is General Employment Enterprises, Inc., the first private employment agency to go public (1967). Its business is the placement of qualified personnel in professional and salaried positions with its largely blue-chip client companies. Its principal income is derived from fees which in most cases are paid by the employer.

History

General Employment is the outgrowth of Fred L. Winslow's engineering supply shop, launched in Chicago 76 years ago. Engineering Agency, a successor and the earliest unit in General Employment, was officially established in 1893. In 1902, James Craig opened the first Business Men's Clearing House and the first Craig Agency (which now specializes in filling professional and clerical positions). In 1951, Charles M. O'Shea (now director and retired board chairman) formed the nucleus of General Employment by purchase of BMCH and the Craig Agency and, in 1953, Engineering Agency. First called the Charles M. O'Shea Corporation, the name was changed to General Employment Enterprises, Inc. on December 21, 1964, when Herbert M. Imhoff, who started as an employment counselor in 1957, became President. The company expanded and prospered and by 1967, had 26 agencies under its banner.

Operations

Today, company agencies are known by six names: Business Men's Clearing House, Business Management Personnel, Computer Centre, Craig Agency, Engineering Agency and Universal Personnel. These agencies currently operate in 21 cities in eleven states and one Canadian province. Company operations include corporate headquarters in Chicago, 39 company-owned employment agencies, 800 employees all told, of whom about 700 are placement counselors in agencies.

Job applicants are recruited by nearly \$1 million in classified advertising annually, and by personal referrals from previous applicants. Fees range from 85 per cent of a monthly salary of \$300 or less to a maximum of 15

per cent of annual salary. Each agency operates as a separate profit center, and the manager of each is responsible for its profitability and manpower development. Free interchange of job orders across the country facilitates efficiency in record keeping and job placement. As the number and geographical spread of offices increases, the possibility of a national computer approach exists. Company is a member and active participant in National Employment Association, the coast-to-coast trade association of the private employment agency industry.

Franchise Program

General Employment anticipates substantial growth in revenues and profits from its franchise program. This started with the opening of 25 franchise offices in 1969, under the BMCH banner. Franchisees pay an initial fee of \$10,000 for which they get the use of the BMCH name, a package of services including managerial training course, and an agency office fully furnished and equipped under a rental agreement. Franchisees pay a continuing monthly service charge ranging between 6 and 8 per cent of gross revenues. Unit office profit expectations are \$30,000 for the first year and \$75,000 to \$100,000 thereafter.

Recent Acquisitions

The company has recently acquired the four Elizabeth York Personnel Agencies in Los Angeles, specializing in the placement of clerical and secretarial personnel; and the Indian College of Business and Technology in Indianapolis, a school for computer programming, college accounting, medical, dental assistance and executive secretarial training. This latter acquisition marks the company's entrance into the educational field.

Financial Data

Herbert F. Imhoff, Chairman and President, on October 8th, 1969, stated that he expected record sales for Fiscal 1969 (year ends September 30) of approximately \$12 million, about 29 per cent above 1968; and net earnings of 71 cents a share, compared with \$9.3 million in sales in 1968 and per share net of 51 cents. After a 2-for-1 split in 1968, there were 932,000 common shares outstanding at the year end. Current indicated dividend is 24 cents a share. The common stock is listed on AMEX where it has ranged between 13 3/8 and 25 1/2 in 1969. In the sloppy markets of the past six weeks, the issue has enjoyed a good demand.

Expectation

The private agency business is still a highly fragmented one with about 6000 firms doing a volume of around \$200 million in fees in 1968. Growth of 15 to 20 per

cent a year seem predictable, and the key to success rests on management. Employers tend to favor those agencies which consistently supply the best selection of qualified applicants. Further, big companies prefer to deal with agencies having branches in key cities across the country, for regional handling of their personnel needs.

Accordingly, we see the possibility of extensive acquisition and merger of successful small local agencies, and the creation of several companies of national stature. Within such a trend, General Employment seems well positioned to sustain its quite unusual growth rate.

Next May, the Company will make its new headquarters and locate its Chicago agencies in some 48,000 square feet in the New Hartford Insurance Building, 150 S. Wacker Drive, Chicago, Illinois — another milestone in corporate progress.

For those investors taking a long range view of service industries, there are some good reasons for favoring current evaluation of General Employment common stock. Its track record is good, and the future apparently quite promising.

Bank America Names Execs.



S. B. Stewart A. W. Clausen

SAN FRANCISCO, CALIF. — A one-time trainee hired by the Bank of America under a fledgling training program for college graduates has been elected president and chief executive officer of the bank.

Thus, 20 years after joining the bank, A.W. Clausen assumes leadership of the world's largest commercial banking institution.

Mr. Clausen was named by the bank's board of directors to succeed President Rudolph A. Peterson who on January 1 will retire at 65, the organization's mandatory retirement age. Mr. Peterson was elected by the board to become chairman of its executive committee upon his retirement.

Mr. Clausen, formerly vice chairman of the board, also becomes president and chief executive officer of Bank America Corporation, the bank's one-bank holding company.

Concurrent with Mr. Clausen's appointment, the board appointed Samuel B. Stewart as vice chairman of the board of directors of both the bank and the holding company. Mr. Stewart, had been executive vice president and senior administrative officer of the bank. He will continue in his role as senior administrative officer for both the bank and the holding company.

Louis B. Lundborg was named chairman of Bank America Corporation and continues as chairman of the board of the bank and chief executive officer of the bank's southern division, headquartered in Los Angeles.

Where The Next Growth In U.S. Market Will Come From

By HEINZ H. BIEL*
Partner, Emanuel Deetjen & Co.,
New York City

There's no doubt in Mr. Biel's mind as to where the next growth will come from. He pin points numerous growth areas and, in addition, propounds several caveats for the unwary investor. He agrees it is difficult to determine decisively what earnings multiples are most appropriate, but anyone in agreement with Mr. Biel's thesis is bound to temper that determination with the optimistic insights provided.

Investing for growth is not a new concept. Our grandfathers bought railroad stocks; our fathers bought automobile stocks; and we bought electronics and television stocks. What are we going to buy for our children? Evidently, what constitutes growth is subject to constant change. Now, the acceleration of the rate of inflation makes capital appreciation a mandatory investment objective. That is why astute investors must give strongest preference to stocks of corporations which would promise an above average growth.

Whereas a rising population has been anything but an unmixed blessing in the underdeveloped countries in Asia, Africa and most of Latin America, the more than 50 per cent increase in the population of the United States just during the past thirty years has contributed enormously to our increasing production and wealth. But even in America it is necessary to differentiate. The influx of farm workers from the South and the massive immigration from Puerto Rico have impoverished rather than enriched our cities in the North. On the other hand, the shift of our population towards the western states and to Florida has been highly beneficial and created regions of rapid growth. The effect is clearly visible in the much higher valuation of public utility stocks serving growth areas than those operating in other parts of the country.

An increase in the number of people does not cause economic growth by itself, but when combined with better education and training and when provided with more efficient tools; the resulting increase in productivity, leads to what has become known as the affluent society. This rising affluence, the huge increase in personal incomes which permits large scale discretionary spending far beyond the basic necessities, has created new areas of growth.

Growth Areas

A prime example is the cosmetics industry. More women with more money to spend are buying an ever increasing amount of cosmetics and toiletries.

Recreation is one of the fastest growing businesses. Hotels and motels are springing up all over the countryside, and the makers of dunebuggies and snowmobiles have rapidly rising sales.

Education has become a must. Universities, colleges and schools are bursting at the seams. Textbook publishing is a growth industry.

The affluent society demands better and broader medical services — hence the enthusiasm of investors for the makers of



Heinz H. Biel

drugs and hospital supplies, and for the operators of nursing homes.

Eating habits are changing. The housewife is buying prepared foods rather than just the components, and more meals are being eaten outside the home than ever before. Hence the boom in the restaurant business.

Living habits are changing, too. Factory-built mobile homes are being shipped to all parts of the country in steadily mounting numbers. They serve to overcome the high cost of conventional houses, as well as the extremely steep increase in land values. Real estate, reflecting the growing scarcity of suitable land has become an area of "growth"

The industrialization of the economy and the urbanization of the population are causing such dangerous pollution of water and air that a solution of these problems must be found before long. This will be a major area of growth.

The growth in air travel is obvious to everyone, but the increase in air freight is even more rapid. High labor costs demand the containerization of freight, especially for sea transport. For the same reason any maker of labor saving devices, whether it be computers and office machines or material handling equipment or automated machine tools, is an important area of growth.

The need for better and faster communication is obvious, whether it be the transmission of computer data or images or voice.

New inventions, new discoveries and exploration constantly create new areas of growth. The electronics industry was virtually non-existent prior to world war II and the use of atomic energy is still in its infancy.

The recent discovery of oil in Alaska is opening vast opportunities for growth and the exploration of the oceans and of outer space has barely begun.

Finally and, I think, most

importantly, we must consider the individual with true entrepreneur spirit, the man who can make a business grow even in a non-growth industry. If he is building up his own company, he will work harder and take risks. If he is heading the management of a big corporation, he is the inspired and inspiring leader. Money and status are strong incentives, of course, but the most powerful motive is the desire for gratification over accomplishment. This trait is probably more pronounced in the U. S. than elsewhere in the world.

In conclusion, I should like to mention a few serious caveats:

— Growth does not necessarily spell prosperity. Classic examples are the airlines or the semi-conductor industry.

— Gradual saturation of the market can slow down growth and eventually bring it to a halt.

— A fad, viz. bowling, should not be mistaken for growth.

— The mortality rate among young companies in newly developed industries is high, due to lack of management experience and inadequate finances.

— If the price paid for growth stock is excessive, the net investment return may fall below the level available on other investment media.

The most difficult problem facing the investor is the proper correlation of earnings growth to the price of the stock. Factors such as competition, saturation, obsolescence, deterioration of management, etc. defy statistical analysis and accurate long-term prognosis in many instances. Yet they are essential for deciding what earnings multiple would be appropriate.

Mr. Blais comments summarize what he recently said at the First Institutional Investors Conference, London, England.

Chairman of Marine Midland



Charles A. Winding

Charles A. Winding has been named a director, chairman of the board and chief executive officer of Marine Midland Banks, Inc. by the board of directors of the \$7 billion international banking system. He succeeds the late J. Fred Schoellkopf IV.

Mr. Winding, is chairman of the board of Marine Midland Trust Company of Southern New York, Elmira, a position he has held since 1948. He also serves as chairman of the Marine Midland Banks Administration Committee and is a director of both Marine Midland Services Corporation and Marine Midland Foundation.

Price Of U.K.'s Entry Into ECM Is "Highway Robbery"

By PAUL EINZIG

A Francophile in everything except when it comes to doing business with France, which Dr. Einzig describes as "perfect hell," our London correspondent charges that France has whipped her fellow ECM members into making the financial costs of Britain's admission excessively high. Dr. Einzig sees in the agricultural terms a foretaste of what's to come, and questions the wisdom of jeopardizing the recently improved tone in the Balance of Payments.

LONDON, ENG. — Many of the best brains in London are now engaged in calculating or guesstimating the cost for Britain of the latest agreement of the E.E.C. on agricultural policy. Even before its conclusion the costs in terms of the British balance of payments were put at as high as 400 million pounds per annum. The much-heralded export surplus of coming years would have to be increased by that much in order to be able to cover the costs of entering the Common Market in addition to repaying at least part of the gigantic external short-term debts accumulated during the past five years.

The way the agreement within the Six came about augurs badly for Britain. Quite evidently President Pompidou is fully as tough a bargainer as General de Gaulle had been, even if he is not so anti-British and has no War-time slights to avenge. Once more the choice for France's five partners was between accepting the French terms and ending the meeting without an agreement. The French representative presented the five Governments with an ultimatum — either accept the costly French terms or Britain's entry will continue to be vetoed. And since Germany and the other non-French members of the E.E.C. are very keen on Britain's admission they had no choice but accept, regardless of the costs.

An Odious Foretaste

This tough method of bargaining is a foretaste of things to come. When preliminary talks are initiated Britain will be certain to find that the French terms are very stiff. Everybody who had any dealings with France — whether Governments or firms — is bound to agree that it is very difficult to reach agreement with the French negotiators on any terms other than the French terms.

Because the British Government has disclosed its keenness on joining the Common Market France is certain to stiffen the terms to the utmost limit of possibility. There will be no "give-and-take," only "take" and no "give" as far as France is concerned. The French Government will want to satisfy the French farmer and the French industrial worker at the expense of the British consumer and the British taxpayer.

Surprised By U.K. Support

The quasi-religious fervour with which the vocal section of British opinion is pressing the Government to join the Common Market is really astonishing. Foremost amongst them is the leader of the movement in favor of joining, Lord Gladwyn. His attitude quite frankly puzzles

me. As a former British Ambassador in Paris he must surely know that the only terms of which France would admit Britain would be such as to secure the maximum of advantage for France and such terms are fated to inflict the maximum of disadvantage on Britain. He must have as much experience as any living human being in hard bargaining with the French Government. Yet he is leading the movement with an amazing degree of enthusiasm.

Perfect Hell When It Comes To Business

I should like to make it quite clear that I am anything but anti-French. I am proud of having graduated at the Sorbonne. French literature from Corneille

to Proust is my favorite reading matter. Whenever I hear French spoken with a Paris accent I enjoy it more than drinking my favorite vintage of French wine. French civilization is second to none. But to do business with France is perfect hell.

For one thing, in addition to being hard bargainer, the present French Government as must as its predecessor, distrusts Britain and suspects that with her entry into the Common market the Trojan Horse of the U.S. would gain admittance to Europe. The first task of the British Government will be to try to convince France that there is no longer any special relationship between Britain and America, and that once Britain has been admitted into the E.E.C. she will be first and last a European country. To that end Britain will be expected to sacrifice her remaining links with what is left to the Commonwealth and the Sterling Area. She will have to satisfy France that she will support French policies if necessary against American policies, in the political, economic and financial sphere.

The movement to join the Common Market has little or no following amidst the wider British public. Both political parties are committed to it, so that it can not be an issue at the next general election. The large

majority of the British electorate will be given no opportunity to register its vote against joining the Common Market. Even so, Mr. Wilson is too shrewd a politician to go very far until the general election is out of the way. During 1970 there will only be very tentative preliminary exchanges of views which will not land the Labor Party with the burden of the unpopularity of the issue on the eye of the election. Once the election is over, whichever Party will win will proceed as fast as it can — that is, as fast as France will allow it to proceed. As a result of accepting onerous terms, the winner of the next election is likely to be the loser of the one after. For by then the costs of joining it will become evident.

Boston Traders Annual Dinner

BOSTON, MASS. — The Boston Securities Traders Association will hold their annual dinner February 13th at the Boston Sheraton. The dinner will be preceded by a luncheon at the Parker House.

Form J. S. Roberts Co.

WESTFIELD, N. J. — J. S. Roberts & Co. has been formed with offices at 1291 East Broad Street to conduct a securities business. Partners are Robert R. Schnabel and William S. Johnson.

This advertisement is neither an offer to sell, nor a solicitation of an offer to buy, any of these securities. The offering is made only by the Prospectus.

December 30, 1969

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TAX-EXEMPT BOND MARKET

By WILLIAM J. RILEY*

A Year For The Record Book

After an almost continuous decline of the greatest magnitude ever, the tax-exempt bond market closed the year of 1969, at least, on a firm and moderately hopeful note. Before an uptick in the final two weeks the tax-exempt bond market set shocking new historic records for high yields, along with the entire bond market; corporates and U. S. Governments alike. From 4.925 per cent on Dec. 31, 1968 the Chronicle's Municipal Average in successive stages and with few brief recoveries, retreated to 6.79 per cent on December 17th. The Average held unchanged on December 23rd; on December 30th it strengthened by two basis points to read 6.77 per cent. The net change for the year was thus, a loss of 1.845 per cent in terms of yield, or in terms of dollars, for a 20 year bond, more than \$200 per \$1000.

High borrowing costs barred the way for many projected new State and Municipal issues do that the of new long term financing fell far below 1968. The year's volume on December 1st, as compiled by the Daily Bond Buyer, was \$10.6 billion; when the December total is added the final figure probably will not equal \$12 billion, far short of the 1968 figure of \$16.6 billion.

The tax-exempt bond market was hammered down by the general rise of interest rates in all spheres and by the restrictive monetary policy of the Federal Reserve Board aimed at slowing down inflation, thereby limiting buying on the part of the banks who before had been the mainstay of this market. Buying on the part of individuals increased substantially but made up only partially for the diffidence of the banks. An added burden in the summer was the House Tax reform measure in its early drafts which would have impaired the traditional tax-exemption of State and municipal bonds. Those provisions were ultimately removed in the final Congressional bill that went to the President only recently.

In short, the year of 1969 was one for the tax-exempt bond market to put away in the record book, to turn away from, and begin 1970 with a fresh look.

The Outlook

The pick-up in the closing days came about partly from the

holiday recess in new supply. Offerings of early December had been necessarily priced to insure distribution. As they cleared away, some items were marked back up as much as 10 and 20 basis points in some cases from the extreme lows. Tax selling abated and many dollar quoted issues, though not all, recovered. Likewise there was some slight brightening in the theoretic outlook. There was some expectation that an ease in Federal Reserve Board Policy, just on the basis of economic forces, might be in order. But market improvement was tinged with an element of caution and a watchful eye on the January calendar. There are many borrowers ready to jump in with any encouragement in prices. The Governor of Michigan, for instance, has just signed a bill lifting the State ceiling on Municipal borrowing from 6 per cent, which had just about stopped all Michigan financing, to 8 per cent.

The 30-day visible supply figure, as compiled by the **Daily Bond Buyer** stands at \$551.4 million having moved up sharply by announcements of forthcoming sales in the last few days. Floating Supply **Blue List** Total is light at \$366.8 million.

Los Angeles Dwaps

Such activity as took place in the last abbreviated weekly period centered chiefly in the secondary market. The only major scheduled new issue was \$39 million Los Angeles Department of Water & Power, Electric Revenue Bonds, advertised for sale on December 30th for the second time.

On Dec. 17 the issue failed to receive bids because of a 7 per cent maximum rate. The bonds were then readvertised for December 30, still retaining the 7 per cent limit. The intervening improvement was enough to carry them over the line. A syndicate headed by **Salomon Brothers & Hutzler, White, Weld & Co.**; and **Merrill Lynch, Pierce, Fenner & Smith** made the better of two bids at a 6.903 per cent "Canadian method" interest cost. Reoffering ranged from 5.65 per cent for the 1971 maturity to 7.00 per cent on the 1997 - 2000 maturities. A close second bid was made by a syndicate managed jointly by **Drexel, Harriman - Ripley, Inc.**, **Lehman Brothers, Blyth & Co., Inc.**; and **Halsey, Stuart &**

STATE AND MUNICIPAL BONDS (Approximate)

	Yield %		Yield %
	(Asked)		(Asked)
Baltimore	6 1/4	1986	6.50
California	4.60	1988	6.90
Connecticut	5.85	1987	6.40
Detroit, Michigan	5.80	1989	7.25
Los Angeles, Calif			
Dept. of Water & Power	6.10	1989	6.50
Massachusetts	5 1/2	1986	6.40
New York State	4 1/2	1989	6.75
New York City	6.00	1988	7.65
Public Housing Authority	6.00	1989	6.30
Philadelphia	6 1/2	1988	7.35

Average: Dec. 23-6.79%; Dec. 30-6.77%

*Mr. Riley is associated with W.F. Hutton & Co., Inc., N.Y.C.

Co., Inc.; in association with a syndicate headed by the First Boston Corp.; Glore Forgan & Co., Wm. R. Staata, Inc.; and John Nureen & Co., Inc. Their bid was 6.911 per cent.

Larger Oncoming Offerings

The States of Alabama and Maine head the bidding schedule for the first calendar week of 1970. Alabama will sell \$30 million Highway Authority bonds, and Maine will sell \$23,145,000 general obligation, general purposes bonds, both on Tuesday, January 6th. Other major scheduled sales in January include \$49 million City and County of San Francisco, California bonds on January 12th; also \$50 million San Francisco Bay Area Rapid Transit bonds, January 22nd. Nassau County, N.Y. will take bids on January 27th for \$37,890,000.

Stephens, Moore Opens in L.A.

LOS ANGELES, CALIF. — Stephens, Moore & Co. has opened offices at 1901 Avenue of the Stars to engage in a securities business. Officers are Paul T. Stephens, president, Malcolm S. Moore, vice president; and Jeanne J. Moore, secretary-treasurer.

Mr. Stephens was formerly with Taylor & Co. and Paine, Webber, Jackson & Curtis. Mr. Moore was with Glore Forgan, Wm. R. Staata, Inc. and Taylor & Co.

First Devonshire Appointments

First Devonshire Corporation, 67 Broad Street, New York City, members of the New York Stock Exchange, have announced that Neil B. Lande has been appointed senior vice president, director and voting stockholder. Richard Marshall has been named vice president and director of operations; and Edward C. Rubin has been appointed to the corporate finance department in New York.

Atlas Advisory

MONTEREY, CALIF. — Atlas Advisory Corp. is engaging in a securities business from offices at 215 Franklin Street. Officers are Jack E. Andrews, president and secretary, and Thad L. Farris, vice president and treasurer.

Evergreen Secs.

SALEM, OREG. — Evergreen Securities, Inc. has been formed with offices at 2111 Front Street, Northeast to conduct a securities business. Officers are Arthur C. Carpenter, president and treasurer; James H. Seeley, vice president and secretary; E. S. Carpenter assistant treasurer; and E. T. Seeley, assistant secretary.

Form Epic Securities

LOS ALTOS, CALIF. — Melvyn S. Glass is engaging in a securities business from offices at 4546 El Camino Real under the firm name of Epic Securities Company. Mr. Glass was formerly a partner in Weldon Glass & Co.

Larger Issues Scheduled For Sale

January 5 (Monday)

Bloomington, Minn. 4,794,000 1972-1990
Riverside Unified School Dist., Cal. 3,000,000 1971-1985 10:00 a.m.
Washtenaw County Building Authority, Mich. 2,000,000 1970-1990 2:00 p.m.

January 6 (Tuesday)

Alabama Highway Authority 30,000,000 1971-1989 10:00 a.m.
Goodview Common School Dist. No. 2606, Minn. 1,020,000 1973-1982 Noon
Gary, Ind. 1,215,000 1971-1975 11:00 a.m.
Hale County Hospital Authority, Tex. 1,405,000 1998-2007 7:00 a.m.
Holmes County District School Board, Fla. 1,000,000 1971-1995 11:00 a.m.
MaComb County, Mich. 2,110,000 1971-1980 11:00 a.m.
Maine (State of) 23,485,000 1971-1990 11:00 a.m.
Riverside, Cal. 3,600,000 1970-1999 10:00 a.m.
Woburn, Mass. 4,290,000 1970-1989 11:00 a.m.

January 7 (Wednesday)

Dade County School Board, Fla. 11,500,000 1971-1999 2:00 p.m.
Howard County, Md. 3,500,000 1973-2000 11:00 a.m.
Howard County, Md. 6,500,000 1971-1990 11:00 a.m.
Kirkwood, Mo. 1,750,000 1971-1985.
South Montgomery Community School Building Corp., Ind. 4,195,000 1972-1993 1:00 p.m.
Tulsa Independent School Dist. No. 1, Okla. 7,500,000 1972-1985 10:00 a.m.

January 8 (Thursday)

Billings, Mont. 2,000,000 1971-1989 1:30 p.m.
Clarence, Etc. and Amherst Central School Dist. No. 1, N.Y. 1,975,000 1970-1995 3:00 p.m.
Crestline-Lake Arrowhead Water Agency, Cal. 2,500,000 1973-1995 2:00 p.m.
Dallas County Hospital District, Tex. 12,000,000 10:00 a.m.
Gary Community School Building Corp., Inc. 4,450,000 1973-1987 1:00 p.m.
Lakeview Local School Dist., Ohio 1,115,000 1971-1993 1:00 p.m.
Oshkosh, Wis. 2,350,000 1971-1985 11:00 a.m.
Southeastern Pennsylvania Transportation Authority 15,500,000 1972-2004 Noon

January 12 (Monday)

Albany School Dist. No. 5, Ore. 2,700,000 1971-1990 7:30 p.m.
Ames Community School Dist., Iowa 1,000,000 1971-1989 4:00 p.m.
Caldwell-West Caldwell School Dist., N.J. 2,580,000 1971-1992
Columbus, Ohio 4,510,000 1972-1996 1:30 p.m.
San Francisco, Calif. 49,050,000 1971-1985
Wyoming, Mich. 1,135,000 1970-1983 7:00 p.m.

January 13 (Tuesday)

Anne Arundel County, Md. 12,000,000 1971-2000
Escondido Union High School Dist., Cal. 2,000,000 1972-1995 9:30 a.m.
Seattle, Wash. 17,000,000 1973-2005 10:00 a.m.
St. Bernard Parish School Dist. No. 1, La. 1,125,000 1973-1995 11:00 a.m.
Valley Oakes Union Elementary School Dist., Cal. 1,015,000 1972-1990

January 14 (Wednesday)

Ann Arbor Public School Dist., Mich. 4,950,000 1971-1995 3:00 p.m.
Dallas Independent School Dist., Tex. 15,000,000 1971-1989 1:30 p.m.
Jefferson Parish School Dist. No. 1, La. 10,000,000 1972-2000 3:30 p.m.
Richland County School Dist. No. 2, S.C. 2,200,000 1971-1988 Noon
Silverton School Dist. No. 4-C, Ore. 1,300,000 1971-1990 7:30 p.m.
Springfield School Dist. R-12, Mo. 5,500,000 1971-1985 7:30 p.m.

January 15 (Thursday)

Snohomish County Public Utility Dist. No. 1, Wash. 15,000,000 1977-2001 11:00 a.m.
Tempe Municipal Property Corp., Ariz. 2,500,000 1971-1995 2:00 p.m.

January 19 (Monday)

Morenci School District No. 18, Ariz. 1,500,000 1971-1978 10:00 a.m.
North Texas Municipal Water Dist., Tex. 9,200,000 1971-1994 4:00 p.m.

January 20 (Tuesday)

Clark County, Nev. 13,000,000 10:00 a.m.
Fauquier County, Va. 3,000,000
Grands Rapids, Mich. 2,000,000 1970-1984 11:00 a.m.
Jersey City, N.J. 12,893,000 1971-1990 10:30 a.m.
Nicolet College Etc. and Adult Education Area Dist. No. 16, Wis. 1,600,000 1971-1981 1:00 p.m.
Ocean Township School Dist., N.J. 1,830,000 1970-1989 8:00 p.m.
Sioux Falls, S.D. 3,000,000 1971-1989

BANK AND INSURANCE STOCKS THIS WEEK: — BANK STOCKS

Credit Tightening Continues

At the time of this writing, some of the weekly monetary indices of the Federal Reserve Board are not available — due to the holidays.

Although Bank Credit Proxy, Monetary Base, and Money Supply figures have not been reported, Money supply shows very little growth over the previous week. Also, member bank borrowings have risen slightly. Net borrowed reserves, however, remained unchanged. New York City bank loans showed a decline in the most recently reported figures but all member banks (nationally) showed an increase of \$1.7 billion for the week ending Dec. 17. Business loans accounted for approximately \$500 million of this amount. In order to accommodate the increased demand for credit, Euro-dollar borrowings increased.

Obviously, the demands on the banking system have not changed the posture of the Federal Reserve Board. This is further evidenced by short-term interest rates which have remained relatively firm. For example, the rate on Federal funds remains at 9¼ per cent although there was a slight dip during the week under review.

On the other hand, bank stocks have been performing fairly well. This may be attributed to the fact that the stock market has been experiencing some rebound and also to the fact that many major economists are forecasting an economic recession in 1970. The recession prognostications are sufficient to spark a rise in the stock market, but it also implies growth in money supply and lower interest rates.

Growth in money supply is sufficient to produce higher earnings if banks can use these assets wisely. For example, tax exempt investment should continue to offer high rates (7 per cent) to the investor due to heavy municipal demands. Lower interest rates should also be helpful to the banks — particularly to those which have heavy Euro-dollar borrowings. In this category are the New York City banks. On the other hand, the prime rate may fall and eventually the existing (current) spread will return and over the longer term, earnings growth should return to the 6 per cent level — which was deemed the appropriate level of the 1960's.

Over the longer term (the full year 1970) regional banks should out-perform New York City banks. In the Southeast, Southwest, and West Coast, commercial banks along with savings and loan associations make up the principal source of mortgage funds. Although interest rates (short term) may fall, the pent-up demand for housing is not expected to affect the rates on mortgages. Very possibly, mortgage rates may rise as housing starts are now 1.2 million units and are expected to double over the next decade. Current demand is estimated to be 1.7 million units. The only deterrent to earnings growth

would be a change in Regulation Q whereby passbook savings rates could be permitted to rise. If the Federal Reserve Board did alter or permit this rate (4 to 5 per cent) to rise, the C. D. rate would also rise thereby adversely affecting the New York City banks. Therefore, relative earnings increases should be greater away from the New York wholesale banks. This

applies to the full year 1970 as indicated above. In other words, as each quarter is reported, improvement or better results will prevail among regional banks.

Investment strategy calls for buying New York bank stocks for the first half of 1970 and then buying regional bank stocks.

Briggs Management

HOUSTON, TEX. — Briggs Management and Research Co. is conducting a securities business from offices in the Capital National Bank Building. Officers are George C. Briss, president; James H. Bell, vice president; and Ellen O. Briggs, secretary treasurer.

COMING EVENTS IN INVESTMENT FIELD

January 16, 1970 (Baltimore, Md.)

Baltimore Security Traders Association 35th Annual Midwinter Dinner at the Lord Baltimore Hotel.

Jan. 26, 1970 (Chicago, Ill.)

Security Traders Association of Chicago 44th Annual Mid-Winter Dinner at the Drake Hotel.

Feb. 11-14, 1970 (Coronado-San Diego, Calif.)

Mutual Funds Conference sponsored by the Federal Bar Association and Commerce Clearing House.

Feb. 13, 1970 (Boston, Mass.)

Boston Security Traders Association annual dinner at the Boston Sheraton; to be preceded by a luncheon at the Parker House.

May 13-15, 1970 (Minneapolis, Minn.)

Annual International Management Conference sponsored by Society for Advancement of Management at the Hotel Leamington.

Oct. 17-20, 1971 (San Francisco, Calif.)

American Bankers Association 97th annual convention.

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DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Air Transport Industry — annual review — Loeb, Rhoades & Co., 42 Wall Street, New York, N.Y. 10005. Also available is a report on **Bank Organization**.

Electric Power Companies — report — with individual comments on **General Electric, McCaw Edison, Rte and Westinghouse** — Paine, Webber, Jackson & Curtis, 140 Broadway, New York, N.Y. 10005.

Electric Utility Industry — 1969-70 Edition of "Questions and Answers about the Electric Utility Industry" — Edison Electric Institute, 750 Third Avenue, New York, N.Y. 10017.

Federal Tax Return Manual, 1970 — reflecting latest pertinent changes affecting 1969 federal tax returns to be filed in 1970, including information on how to prepare Federal Income Tax Returns for individuals, small business, and corporations — Commerce Clearing House, Inc. 4025 West Peterson Avenue, Chicago, Ill. 60646 — Loose leaf binder — \$33.50.

1970 Business Trends and Progress — a graphic look at the U. S. economy over 12 decades — Indiana National Bank, Research Department, Indianapolis, Ind.

1970 Stock Trader's Almanac — combination daily calendar and stock market encyclopedia providing as investment diary in which to record market transactions and keep track of the portfolio; containing a 12-year stock market projection in addition to a 1970 outlook — Yale Hirsch, — The Hirsch Organization, Inc. 527 Madison Ave., New York, N.Y. 10022 — Soft cover to \$6.95.

One Hundred Years of Banking? The History of Mellon National Bank and Trust Company — Mellon National Bank, Pittsburgh, Pa.

Over-The-Counter — Index folder showing an up to date comparison between the listed industrial stocks used in the Dow Jones Averages, both as to yield and market performances. National Quotation Bureau, 116 Nassau Street, New York, N.Y. 10038

American Broadcasting Company — analysis — Edwards & Hanly, 2 Broadway, New York, N.Y. 10004.

American District Telegraph — report — Shearson, Hammill & Co. Incorporated, 14 Call Street, New York, N.Y. 10005. Also available are reports on **Chrysler Corp., Combustion Engineering, Faberge, General Electric Co., General Instrument Corp., Hardee's Food Systems, Outboard Marine Corp., Parker Hannifin Corp., Roper Corp., Squibb Beech-Nut, Sterling Drug Co. and White Consolidated Industries.**

Ampex — report — Argus Research Corporation, New York (sample copies available from firms using Argus Research services). Also available are reports on **Thrifty Drug Stores Co., Control Data Corp. and Mead Corp.**

Angelica — analysis — Eastman Dillon, Union Securities & Co., 1 Chase Manhattan Plaza, New York, N.Y. 10005. Also available are comments on **Allegheny Power System, Central Illinois Light and Southern New England Telephone**, and comparative figures on **Utilities.**

Applied Magnetics Corp. — analysis — Batemen Eichler, Hill Richards, Incorporated, 460 South Spring Street, Los Angeles, Calif. 90013. Also available are analyses on **Cosmetically Yours, Di Giorgio Corp., and Knudsen Corp.**

Brown Enterprises, Inc. — report — A.G. Edwards & Sons, Inc., 409 North Eighth Street, St. Louis, Mo. 63101. Also available are reports on **Crawford & Co., Bekins Co., Mallinckrodt Chemical Works, Missouri Research Laboratories, Peterson Howell & Heather, Pizza Inn, Stuart Hall Company and Vista International Corp.**

Capital Cities Broadcasting — comments — C. B. Richard, Ellis & Co., 5 Hanover Square, New York, N.Y. 10004.

Congressional Life Insurance Company of New York — analysis — Dirks Brothers Limited, 7 Dey Street, New York, N.Y. 10007. Also available are analyses of **Hartford Fire**

Insurance Company and Unionamerica.

Convalescent Nursing Centers of America — analysis — Watling, Lerchen & Co., Ford Building, Detroit, Mich. 48226. Also available is an analysis of **Mountain States Telephone & Telegraph Co.**

Data Information Services Inc. — report — Burton, Dana, Westerlund, Inc. 120 Broadway, New York, N.Y. 10005.

Gray Drug Stores — analysis — Filor, Bullard & Smyth, 26 Broadway New York, N.Y. 10004.

Kuhlman Corporation — analysis — Wm. C. Roney & Co. Buhl Bldg., Detroit, Mich. 48226.

Lucky Stores, Inc. — comments — TPO Incorporated, 61 Broadway, New York, N.Y. 10006. Also available are comments on **McDonald's Corp.**

Schiller Industries — analysis — Marantette & Co., Penobscot Bldg., Detroit, Mich. 48226.

Superscope — chart analysis — Gore Forgan, Wm. R. Staats, Inc., 45 Wall St., New York, N.Y. 10005. Also available is a chart analysis of **U.S. Plywood-Champion Papers.**

TEC Incorporated — analysis — Piper, Jaffray & Hopwood, Incorporated, 115 South Seventh Street, Minneapolis, Minn. 55402.

Partner In Hertz Warner



David Warner

PHILADELPHIA, PA. — David Warner, a Member of the Philadelphia, Baltimore, Washington Stock Exchange since 1963, has become a General Partner of Hertz, Warner & Co., Members of the New York Stock Exchange, representing the Firm on the Philadelphia Floor. Mr. Warner has been in the securities business for 36 years.

MUTUAL FUNDS

By JOSEPH C. POTTER

Less From More

One day last week the Investment Company Institute, trade association of the mutual funds, reported that its membership had climbed to a record 269 open-end firms, compared with 266 a month earlier and only 238 a year earlier.

So, if nothing else, the number of funds was growing. Otherwise, there was small cause for cheer. Thus the I.C.I. noted that in the month of November gross sales were a disappointing \$416.7 million. That's a long way from the \$564.1 million recorded in October and a mere shadow of the \$687.7 million attained in November of 1968.

October of this year imparted a measure of cheer to fundmen, who had sustained a slump to \$441.7 million in September after registering \$482.2 million in August. Volume was \$503.4 million in July.

Redemptions in November rose well over \$8 million from the preceding month, approaching \$277 million. Of course, this was still a long way from the \$313 million of redemptions in November of 1968, a banner month for fund salesmen. Needless to say, that was before the demise of the bull market.

The I.C.I. also reported that total net assets of members declined in November, to \$49.2 billion from \$50.9 billion in October, which is a whopping \$4 billion below the November, 1968, figure. Commented the I.C.I. in its quest for solace: "While the Dow-Jones index declined more than 5 per cent in November, assets (excluding net sales) of

institute members only dropped by 3.6 per cent."

Certainly there was no solace in the news that fundmen's holdings of cash, or its equivalent, was lower in November than October. As of Nov. 30, fund cash holdings were a mite above \$4.0 billion, against \$4.6 billion in October, a drop of 10.8 per cent.

As the I.C.I. noted in more mournful numbers: "Because of the decrease in both net and liquid assets, the fund industry showed a lower liquidity ratio. November's liquid assets as a per cent of total net assets were 8.3 per cent vs. 9 per cent in October."

Fundmen are grateful that there remains but one more month of 1969 to report. Another cause for gratitude: Redemptions as a per cent of average net assets in the 12 months ended Nov. 30, 1969, were 7.1. That's down from the 7.2 per cent in the 12 months to October 31, 1969, and considerably below the 7.7 per cent in the year ended November 30, 1968. The rate reached 8.5 per cent back in July of this year.

As the old year faded, fundmen were spending nearly as much time analyzing their own business as the businesses into which they buy. And however dreary the stock market may prove in the days ahead, 1970 looms as a year in which scores of new funds will emerge to challenge the established companies for the business of selling shares to the public.

Happy New Year!

The Security I Like Best

Continued from Page 2

Builders Iron Products, Inc., is the only manufacturer of wheelbarrows, south of Chattanooga. It also produces hand trucks, mortar boxes, conveyor systems, and other material handling systems as well as structural and decorative steel products.

The corporate structure now includes these subsidiaries: Southeast Machinery Co., Miami (machine tools); Gondas Corporation of West Palm Beach (industrial equipment and supplies); Southern Pump & Supply, Inc., Tampa (industrial equipment and supplies); Mill Supplies, Inc., Orlando (industrial equipment and supplies); Builders Iron Products, Inc., Fort Lauderdale (material handling systems, conveyor systems, structural and decorative steel products); and Peninsular Armature Works Broward, Inc., Fort Lauderdale (sales service and repair of pumps, motors and armatures).

Gondas intends to expand through internal growth and acquisition of related companies. It is at various stages of negotiations for several more acquisitions, one or more of which it hopes to conclude during fiscal 1970. Efficiency is being improved by modernization and employee incentives. Profit margins are expected to improve as the potentials of new

personnel and newly acquired facilities are realized.

Florida's spectacular growth in population, rising from 20th among the states in 1950 to ninth at present, shows signs of further acceleration. The state's industrial expansion provides manifold opportunities for increasing the sales of industrial equipment and supplies. Gondas is energetically exploiting these opportunities.

Barr says Gondas is not a conglomerate but a "synergism." This means you acquire businesses that complement your existing operations — that is, if you sell pumps, tool and compressors, you buy companies that make the things you need, and you keep your eyes open for warehousing.

Gondas has been trading recently at about \$7.50, which is less than 10 times the fiscal 1969 earnings of 76 cents per share — a remarkable bargain for a growth stock. Most of the price is covered by the book value of the stock which, at the fiscal year end on April 30, 1969, was \$4.91. It is traded on the over-the-counter market.

Barr's goal for sales and earnings is 15-25 per cent per year internal growth and as much as another 15-25 per cent possible through acquisitions. With his impressive track record in several companies this is probably conservative.

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PUBLIC UTILITY SECURITIES

By R.E. Moore

Southern Indiana Gas & Electric Company

Territory — Business

Southern Indiana Gas & Electric Company is a fairly small combination utility serving 2,250 square miles—containing a population of 260,000 people in southwestern Indiana. The company provides either gas or electric service to more than 75 cities, towns and communities including Evansville with an estimated 1960 population of 145,000 people. Southern Indiana benefits from the transportation advantages of the Ohio River as well as abundant coal reserves. Important economic contributions are made by aluminum, coal, electrical machinery, and food and kindred products. In 1968, the company derived approximately 70 per cent of operating receipts of \$38 million from electric business and 30 per cent from gas.

The industrial user category accounted for \$6.9 million of electric revenues and \$3.1 million of gas receipts. The company's largest customers include such well known firms as Whirlpool, Peabody Coal, General Electric and Arkla Air-Conditioning. Electric revenues from industrial customers have gained over 48.5 per cent since 1964 to an estimated \$7.6 million in 1969. In a talk before a group of security analysts in November 1969, management estimated an industrial revenue advance of close to 39 per cent to \$10.6 million over the five year period ending 1974. Gas industrial revenues have soared 218 per cent since 1964 to about \$3.5 million in 1969 primarily because of the Alcoa and Babcock and Wilcox loads. Although the historic rate of growth is not expected to be maintained through 1974, revenues could rise by a substantial 95 per cent to \$6.9 million.

Commercial revenues of \$9.4 million for electric business and \$1.9 million for gas customers have posted increases of 36 and 78 per cent respectively since 1964. Commercial additions and expansions within the company's service area include the 18 story Old National Bank Building, a civic center and a sixty-five room addition to the Ramada Motor Hotel. Expansions are also being carried out by Sears Roebuck, Penney and Interstate Stores. Electric revenues for this category are expected to expand by 39 per cent by 1974 to \$13.9 million, while a high space heating saturation should tend to limit gas growth to about 15 per cent to \$2.6 million.

Modest population gains and the trend to multiple dwellings have held customer growth to around 1.5 per cent per annum. However, the increasing use per customer has resulted in residential kilowatt hour sales growth of 36 per cent since 1964. The most notable residential development in the system's service territory has been Christman Lake Village. Started in 1966, this 2,000 acre resort type community will have some 1,500 predominantly all electric homes, a golf course and a lake for boating. Management estimates that residential

electric revenues of about \$11.4 million in 1969 should be able to rise 52 per cent by 1974 to \$17.3 million. The high gas house heating saturation of some 95 per cent suggests a moderate 21 per cent gas revenue advance.

All told, the company expects electric operating revenues to approach \$41 million by 1974, some 44 per cent more than in 1969. Total gas receipts should be able to maintain about the same rate of growth as electric business and rise some 45 per cent to \$17 million by 1974.

Construction — Financing

Capital outlays in 1968 totalled \$12.5 million, and are budgeted at \$90.3 million through 1973. Annual estimates are: 1969 — \$18.0 million, 1970 — \$15.0 million, 1971 — \$18.3 million, 1972 — \$26.4 million, 1973 — 12.6 million. The company is building jointly with Alcoa Aluminum a 300,000 kilowatt unit at its Warwick generation station. This unit is expected to come on line in the spring of 1970. The next major addition will be a 250,000 kilowatt unit at the Culley station scheduled for commercial operation in 1973.

To finance the foregoing construction program, management plans to raise \$8 million in 1970 and \$10 million in 1971 by the sale of long term debt. No further outside financing is anticipated through 1974. Capitalization of \$101.4 million in 1968 consisted of 38 per cent common equity, 10 per cent preferred stock, and 52 per cent long term debt. Long term debt as a per cent of capitalization is expected to rise to 53.5 per cent in 1970 to about 56 per cent in 1971.

Regulation

The state regulatory body in Indiana uses a fair value rate base in computing rate of return and allows tax savings derived from the use of Investment Tax Credits and Liberalized Depreciation to be normalized. Hence, the proposed elimination of the Investment Tax Credit will have a negligible impact on earnings.

In 1968 SIGECO's return on original cost net plant investment was 7.7 per cent, and on common equity it was about 14.3 per cent. Management has petitioned the Public Service Commission for permission to raise rates in order to offset the 23 per cent increase in gas costs by its supplier Texas Gas Transmission. If granted, the higher rates would raise revenues \$2.7 million annually.

Earnings — Dividends

Southern Indiana Gas & Electric Company reported earnings of \$2.70 a share in 1968 on 2.0 million outstanding shares. These results were 5 per cent greater than the \$2.56 a share earned in 1967, despite the 10 per cent federal surcharge which reduced profits 24 cents. Over the five years ended 1968, the company increased earnings 11 per cent per annum, significantly above the 6 1/4 per cent advance

registered by Moody's 24 electric stock average. In the latest reporting period, the 12 months ended October 31, 1969, the company earned \$2.92 a share. There is a possibility that SIGECO will ultimately lose a REMC load to the Statewide Cooperative. However, this business is low margin and will effect only 1 per cent of system revenues.

The current annual dividend of \$1.60 share was last raised at the January, 1969 declaration and represents 55 per cent of latest earnings. Management has raised the dividend each year since 1959.

Market Comment

Southern Indiana Gas & Electric Company trades on the

New York Stock Exchange at a price of around 29. During 1969, the common has traded as high as 39 and as low as 29 1/4. The current price earnings multiple of 9.9 times and yield of 5.5 per cent compares to a 12.0 P E for Moody's 24 electric stock average which yields 5.5 per cent.

Mr. Moore is associated with Model, Roland & Co., Inc., New York City.

Form Aloha Newport

NEWPORT BEACH, CALIF. — Aloha Newport, Inc. has been formed with offices at 550 Newport Center Drive to engage in a securities business. Officers are William R. Atkinson, Jr., president; William A. Wittman, Jr., vice president; and Alan R. McMillen, secretary.

Walston Appoints

CLEARWATER, FLA. — W. Richard Minor has been elected a vice president and appointed resident manager of the Clearwater, Florida office of Walston & Co., Inc., 418 Cleveland Street. It has been announced by Daniel J. Cullen, chairman of the board and executive committee, and William D. Fleming, president.

From 1964 to 1966 Mr. Minor was an actuarial consultant for Wyatt Co. in Dallas. In 1966 he became in Account Executive in the Miami office of another New York Stock Exchange member firm. Mr. Minor joined Walston & Co., Inc. in July 1969 as an Account Executive in the firm's Miami office.

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Why Capital Spending Rise Would Not Help Inflation Fight

By TILFORD C. GAINES*
Vice President and Economist,
Manufacturers Hanover Trust, New York

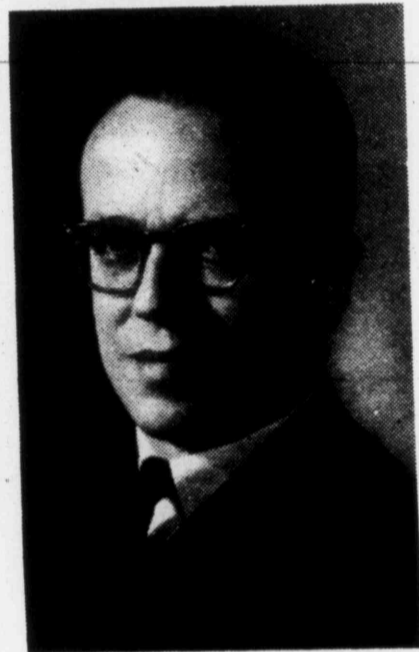
Bank economist is far from sanguine about the amount of real growth in 1970's GNP, but holds that were a recession to develop, which he believes is likely, it would be a mild one. He takes exception to the type of argument advanced by Lionel D. Edie & Co., a financial advisory management consulting company, and others, that price inflation would be best arrested by expanding business spending, output, and productivity. Realistically, he says, the lack of unemployed resources makes such an ideal answer impractical. He also rejects a wage price control policy as futile. The present policies, he concludes, are better and constitute the least damaging approach to correcting inflation.

The economic outlook for 1970 is scarcely promising: it is, in fact, rather bleak. It probably will be a year of little if any real economic growth, of rising unemployment and falling profits. At the same time, interest rates probably will remain abnormally high and inflation is likely to be nearly as serious a problem as it has been this year. The only bright spot on the horizon is that if events move as most economists expect them to the corner should be turned on the rate of price inflation during the course of the year, so that in 1971 and the years beyond it should be possible to restore the solid rate of real economic growth that the U.S. economy is capable of sustaining.

There has been continuing debate for more than a year as to whether restrictive monetary and fiscal policies were succeeding in slowing the economy. The answer now is very apparent, our economic growth rate has been brought down virtually to zero. There still is uncertainty, however, as to whether or not the exercise in self-discipline that has been imposed in order to correct inflation will succeed in that objective. There is no evidence as yet in the price statistics that inflation has been slowed, although it is gratifying that the rate of inflation in recent months appears to have levelled off after its rapid escalation during the preceding two years. There also is growing debate on whether fiscal and monetary restraint was the best path to follow in curtailing inflation, and as to whether the costs that are being imposed upon the economy might not have been avoided. My remarks today will touch upon this question of the alternatives open to us as well as presenting a view of economic prospects.

Recession Fears

Recently there has been more and more discussion of the possibility that the economy might pass through a business recession during 1970 rather than simply moving to a slower rate of real growth. The statistical evidence for the past few months does suggest that a mild recession is a good possibility and that, in fact, it may already have begun. If overreaction is to be avoided, it is most important that businessmen and consumers have a clear understanding of the technical economic meaning of the word "recession." Economists define recession as two consecutive quarters, a total span of six months, in which real Gross National Product declines.



Telford Gaines

The recession may run much longer than two quarters and may be either mild or severe, but there is no implication in the word itself of a protracted slump, very high unemployment, a large number of business failures, and the rest. What businessmen should keep in mind as we pass through the period of trial and testing ahead of us is that this is a time for caution and careful planning but certainly not a time for panicky retrenchment.

In my opinion, the economy probably will pass through a recession extending for three or four quarters, perhaps starting in the current, fourth quarter of 1969. If a recession does develop, however, it is likely to be quite mild, with real Gross National Product slipping by no more than one per cent from peak to trough, and there is good reason to expect that by the end of next year the economy should again be on the uptick.

Consumer's Role

Consumer spending, particularly on automobiles and major appliances, seems likely to be the sector of greatest weakness. Surveys of consumer attitudes and buying plans show a sharp deterioration during the past many months, and this deterioration has already been reflected in retail sales. The dollar volume of retail sales in November was virtually unchanged from November a year ago, implying a drop of some 5 per cent or more in unit volume. There is substantive reason for this lethargic performance of retail sales. In spite of the very large month-to-month increases in personal income throughout 1968 and the first eight months of 1969, the amount of income consumers currently have available for spending on discretionary items

such as appliances and autos probably is less today than it was eighteen months ago. Rapidly rising Federal, state and local taxes along with steeply higher prices on the essentials of life such as food, housing and medicine have more than eaten up increases in personal income. As a consequence, consumers have gone heavily into debt just to maintain their existing scale of living, resulting in serious deterioration in household liquidity. Meanwhile, the rise in personal income has slowed appreciably during the two most recent months for which data are available which, in combination with the illiquid condition of consumers and growing uncertainty about job tenure, creates a situation in which consumer spending should not be expected to provide support for the economy.

Our current estimate is that spending on services in 1970 will grow by \$17 or \$18 billion, almost as much as last year, but that spending on goods will be up by only about \$10 billion by contrast with an estimated increase in 1969 of twice that amount. Purchases of non-durable items might increase by 4 per cent or so, about the rate of price inflation, implying little if any growth in unit volume, while spending on autos and other durable items might be unchanged to a shade lower implying a drop of about 5 per cent in unit volume.

Construction Weakness

Another area of weakness may be construction activity of all types. Residential construction has become progressively weaker throughout 1969, with new housing starts dropping from an annual rate of more than 1.8 million units in January to only 1.3 million units in October. However, the drop in spending on residential construction has been offset by rising expenditures on other types of construction, most particularly hospitals and other institutions, highways, and office buildings. Meanwhile, the index of new construction contracts has moved irregularly lower for the past half year, with weakness appearing to be spreading into commercial and industrial construction as well as residential building. This index confirms reports from builders and developers of forced deferrals of new projects because of the growing difficulty in locating both long-term mortgage money and short-term interim financing.

As the lower level of new contract awards gradually works its way into a reduced level of current spending on new commercial and industrial construction, the total of such spending will begin to move steadily lower. Construction spending last fall has been at a \$93 billion annual rate, and our estimate is that this total might dip by something like \$5 billion over the course of the next six to nine months. The larger part of the decline will be in non-residential building, but there seems little prospect that residential construction will be able to rebound sufficiently to offset any significant part of the drop. Home construction has tended to increase in most post-war recessions, providing an offset to weakness elsewhere in the economy, but only a marginal improvement above

1969's estimated 1.4 million housing starts is likely to be achieved next year. It is estimated that the needs of a growing population require something like 2 million housing units annually, suggesting that even if mobile homes are included we are falling far short of meeting the need.

Agency Financing

The Federal National Mortgage Association and Federal Home Loan Banks for some months past have been supplying about one-half of all new home mortgage money, an amount that probably will not be increased during the coming year, so that any improvement in residential building will have to rest upon a better availability of private mortgage money. There might be some improvement in the mortgage market, but the overall outlook for credit demands suggest that it will be minor. Moreover, there is some question as to whether the shortage of mortgage money is wholly responsible for the depressed level of housing starts. Some analysts have concluded that the combination of high building and land costs, high property taxes, and high interest rates have forced many middle-income families out of the market, and that this is of equal importance with the lack of mortgage money in explaining our poor performance in providing homes for our population.

Business Spending

One important sector of the economy that might continue strong throughout 1970 is business spending on plant and equipment. A number of recent surveys have shown that industry plans to increase such spending by about 8 per cent or \$6 billion, above 1969's record level. If consumer spending proves to be as weak as predicted, some of these plans may ultimately be scaled down, but there are substantial reasons for thinking that in 1970 there may be the anomaly of strong business capital spending side-by-side with a generally weak economy. To an unusual degree, the current wave of capital spending is unrelated to what is currently happening to final sales. In the case of the electric power and telephone utilities, a huge amount of money must be spent next year and in future years simply to bring capacity up to existing requirements. Also, the airline industry is committed to very large capital outlays next year on the new generation of jet aircraft. In many industries, steeply rising costs are forcing the introduction of new, labor saving equipment and more broadly, across a range of industries, existing facilities have not kept pace with new technology which has accelerated the rate of obsolescence and made large capital outlays mandatory.

While there is reason to think that the surveys may be right in projecting a higher rate of business capital spending in 1970, total business spending may not increase significantly. Inventories have been built up at an \$8 billion annual rate during the first three quarters of 1969, and it would seem unlikely that a similar growth will occur next year if sales behave badly. If one

may assume that inventories will increase in 1970 by perhaps \$4 billion, one-half of last year's increase, the total growth in business spending including capital outlays might add about \$2 billion to total Gross National Product.

Government Outlays

Finally, government spending in 1970 should be expected to increase but not by as much as in most recent years. Spending on goods and services by state and local authorities might be up by the usual \$12 billion, but Federal Government spending could actually be down marginally. Present Defense Department plans call for a reduction of some \$6 billion in defense outlays, partly reflecting a phased withdrawal from Vietnam, which could more than offset somewhat higher spending on non-defense items. It should be pointed out that defense spending on goods and services as reflected in the GNP accounts does not include so-called transfer payments such as interest on the public debt, Social Security, and so forth. Total budget expenditures in the new year will no doubt increase even if the Federal Government sector in the GNP accounts shows a small decline.

Pulling these various pieces together, the forecast is for GNP to be up in 1970 by perhaps \$40 billion which, if inflation were to continue at an average rate of 4 per cent during the year, would imply almost no real growth in 1970 over 1969. The forecast calls for a gradual dip in real GNP for three or four quarters, offset by some small improvement in the closing months of 1970.

Public Policy and Price Inflation

This forecast of the outlook assumes that Federal Reserve monetary policy will remain essentially restrictive pretty much throughout the year, though less restrictive than at present, and it assumes that the Administration will succeed in avoiding a shift back to an expansive fiscal position. Both assumptions are consistent with the stated intentions of the Federal Reserve and the Administration's fiscal authorities. Is there valid reason for questioning that restraint will be continued even in the face of a mild business recession?

There is no point in speculating on what Mr. Burns will do when he replaces Mr. Martin as Chairman of the Federal Reserve Board. On the available record it would appear that his approach to the problem of inflation will be very similar to Mr. Martin's. On grounds of logic and of the Federal Reserve's awareness of mistakes it has made in the past, there is every reason to expect adherence to monetary and credit restraint until there is evidence that inflationary attitudes have been corrected, that the "looking over the valley" syndrome has been dispelled, and perhaps until there is some positive evidence that the rate of price inflation itself is diminishing. The Fed is aware that little will be accomplished by a premature or excessive move toward an easier policy and that, in fact, such action would seriously risk undoing all that has been accomplished toward restraining economic growth in an effort to correct price inflation. Some gradual

easing might occur as economic weakness begins to be translated into a slower rate of price inflation, permitting a modest rate of growth in the money supply and a somewhat easier tone in the money market, but anything more than this is unlikely unless the projected recession were to threaten to become severe. Objectively, the ideal outcome would be for Federal Reserve policy to return to a neutral position that permitted an orderly growth in money supply and credit, avoiding overreaction that could only subsequently lead to overreaction in the opposite direction.

Budgetary Uncertainty

One can be less confident of the role that budget policy might play in 1970, not so much because of uncertainty as to the Administration's intentions but because of uncertainty as to what the Congress might feel impelled to do in a period of worsening economic conditions and rising unemployment. Only last week the Ways and Means Committee approved a 15 per cent increase in Social Security benefits effective in January, rejecting the President's request for a 10 per cent increase effective in March. On the same day, the Senate approved an increase in personal exemptions for income tax purposes. Other provisions of the tax bill would further benefit consumers at the expense of increased business taxation. The total changes voted in the Senate last week amount to an estimated \$12 billion of new spending or revenue loss. The anticipated budget surplus for fiscal 1970 is already in danger, primarily because revenues are falling short of estimates, and maintenance of even a balanced budget in fiscal 1971 will be exceedingly difficult under even the best conditions. These recent actions in Congress, if they are enacted into law, will virtually guarantee a very large Federal budget deficit for fiscal 1971.

Tax Changes

It simply is much too early even to be considering tax changes that might make the budget a strongly expansive influence upon the economy. There are risks involved in the prospect of a business recession, to be sure, but these risks are insignificant by contrast with the prospect of continued excessive inflation. Creation of a budget deficit in 1970 would force the Federal Reserve System to continue on its policy of severe restraint much longer than otherwise and might induce the Federal Reserve to move toward even greater restraint. In that event, the head-on collision between the upward thrust to the economy from fiscal policy and the unavailability of money and credit to validate that thrust because of monetary policy could create serious danger of financial distortions that, in turn, could ultimately throw the economy into a much sharper recession than anything that now seems possible. It is exceedingly important at this juncture that both fiscal and monetary policy stay on their present restrictive course if we are to succeed in correcting price inflation with minimum economic discomfort.

Price Stability Outlook

Unless the wrong things are done on tax policy, the prospect of significant progress toward price stability in 1970 is good. While the operation has taken somewhat longer than expected, events are developing as planned. The policies that have been pursued had as their first objective retarding the economic growth rate so as gradually to create some surplus capacity in both production facilities and labor force. As the next step, corporate profits were expected to begin to dip as industry found sales lagging and competitive pressures making it ever more difficult to pass on rising costs in higher prices. These two objectives have now been achieved. The next phase calls for industry, in its effort to protect profits, to increase its efforts to reduce costs, including some staff reductions, closing of less efficient facilities, and similar actions. To the extent that these efforts are successful, productivity should begin to improve, allowing industry to absorb rather than pass on in prices a larger part of the continuing increases in hourly wage costs. As this process is reflected in a slower rate of price inflation, union leaders might find it possible to begin scaling down their demands for wage and benefit increases. In addition, of course, the profit squeeze will make it necessary for industry to offer stronger resistance to excessively large wage demands. Through this process, the plan calls for the corner to be turned first on the rate of price inflation followed by a gradual reduction in the rate of wage increases. Once these two corners have been turned, slow but steady return to substantial price stability should be possible.

It follows from the foregoing that unemployment will rise as part of the cost of eliminating inflation. No one can be pleased at this prospect and there is some concern that in our present social setting rising unemployment might, in some cases, pour fuel upon the already existing dangers of violent outbursts. It also follows that the confrontation between industry's inability to grant steadily rising wage increases and union leaders' need to demand large increases to protect their members will probably involve more and longer strikes than in other recent years. These by-products of the battle to eliminate inflation are unwanted and unfortunate, but they would appear to be unavoidable if the greater evil of inflation is to be eliminated.

Are There Alternative Routes?

A growing number of commentators have been raising questions as to whether fiscal and monetary restraint was the proper or necessary approach toward correcting inflation. Perhaps the fact that debate on this issue has been snowballing recently is part of the evidence that the policies are working as intended. Still, in view of the costs being imposed upon the U. S. economy in the form of lost real growth and unemployment, it is important to ask if all this was really necessary.

Some of the critics of present policies are prepared, even happy to accept the present rate of price inflation. Many of this

group argue that it is impossible to achieve or maintain full employment of the labor force without the present degree of inflation, and that full employment is a more important objective than price stability. The argument that some degree of inflation is necessary to achieve any given unemployment level, and that unemployment can be held at that level by maintaining the rate of inflation, has been thoroughly refuted in the economic journals. In addition, it occurs to me that those economists who argue that inflation at the rate of 5 to 6 per cent annually is an acceptable condition simply do not understand the traditions and institutions of American society. The United States is a high-savings economy, with almost all families sharing a commitment to price stability in the form of fixed value assets they own. Such assets include life insurance policies, the right to Social Security benefits, savings deposits, and so forth. Continuing inflation at anything more than an insignificant rate would force upon the United States a wrenching realignment of its savings patterns and institutions. Such a realignment could have far-reaching and dangerous implications for the economy's ability to generate the growth record it has maintained historically in the context of a private enterprise system. As a personal judgement, inflation as a way of life is intolerable and unthinkable for the United States.

Two Policy Groups

Other critics of present policies share this view toward the danger of inflation but argue that other policies would have been more effective at less cost. These critics by-and-large can be identified in two groups: One, those who favor wage and price controls and two, those who favor more rapid economic growth.

If there were any real prospect that price and wage controls would have succeeded in controlling our present inflation, there is no question but that they would have been the preferred choice. However, few economists and even fewer public officials feel that they could have been effective. In the first place, it is doubtful that they would have been acceptable to the public in the absence of full scale war mobilization and product rationing, as in the Second World War. In the second place, prior experience with such controls more than anything else points up the ingenuity of Americans in finding ways to avoid the restraints. Posing this kind of challenge to Americans' imagination would once again, I am confident, have led to ingenious evasive tactics. Finally, wage and price controls can be imposed without unreasonable difficulty on an economy whose constituent parts are imposed. Such was the case at the time the United States entered World War Two. But by the time our current inflation had become sufficiently serious to evoke counter action, massive distortions had already been introduced. Some workers' pay had been adjusted to the amount of inflation that had already occurred, but most pay envelopes had not been so adjusted. Prices of some

products and services had already advanced sharply while others had moved little if at all. It would have required a modern day Solomon to determine and put into effect the tens of thousands of wage and price adjustments necessary to restore balance among the various labor and product markets.

Lionel D. Edie Type of Solution

The proposal that inflation could have been cured by increasing expenditures on investments, leading to expanded output and rising productivity, is intellectually more attractive. It is obviously true that over longer periods of time it is rising productivity, stemming at least in part from rising capital investment, that offers the best protection against price inflation. But it is seriously doubtful that the circumstances of 1968 and 1969 were appropriate for success in this direction. If there had been unemployed resources available to be shifted to enlarged investment spending, such a policy could have worked; but if there had been unemployed resources there probably would not have been price inflation. Given the over-employment in the economy these past two years, the resources to increase investment and to increase product output could have been obtained only by bidding them away from other employment. The inflationary spiral would have quickened, with each new spin of the spiral even quicker, leading ultimately to a serious economic break when excess capacity and inventories had reached a point where correction was unavoidable. Having said this, however, it is nonetheless encouraging that industry is planning to continue its heavy spending on new capital because of the productivity improvement and resulting assistance toward eliminating inflation that such expenditures can bring. In this respect, it is unfortunate that the Administration found it necessary for short-run budget purposes to recommend repeal of the Investment Tax Credit.

Conclusion

In conclusion, therefore, it is my judgement that the present restraint policies, although they will entail some hardship, constitute the best and least damaging approach to correcting inflation. The adjustment that we now appear to be moving into need not be prolonged nor seriously damaging to many workers or businesses. And, for all its unfortunate characteristics, the adjustment could also bring some benefits. To the extent that some slack can be created in the utilization of material and labor resources, these resources would become available for other uses. The rapidly growing interest in what has come to be called the "quality of life" — a term that refers to the range of ecological, biological, and sociological problems — indicates that American priorities may be shifting away from maximum growth in material goods to improvement in our environment, even at the cost of economic growth. If this is the direction in which American priorities are moving, the period

of slack in business activity ahead should simplify the job of providing the resources that will be necessary to make progress on the "quality of life" front. In longer perspective, it may prove that our present exercise in self-discipline will be beneficial not only in wringing inflation out of the system, but also in spurring movement toward a better and healthier life for all Americans.

* An address by Dr. Gaines at the Business Outlook Conference, University of Washington, Seattle, Wash. Dec. 11, 1969.

Heisler Joins Wechsler Firm

Morris Heisler has become associated with Wechsler & Krumholz, Inc., 39 Broadway, New York City, as manager of the clearance division. Mr. Heisler was formerly assistant vice president of the National Bank of North America.

Howard Weil Absorbs Viguerie

NEW ORLEANS, LA. — Viguerie, Hayne & Chaffe Incorporated has been merged into Howard, Weil, Labouisse, Friedrichs and Company, 211 Carondelet Street, member of the New York and American Stock Exchanges.

DIVIDEND NOTICES



USM Corporation

Research/Systems/Manufacturing

258th Consecutive Quarterly Dividend

The Board of Directors has declared dividends of 37½ cents per share on the 6% Preferred stock, 52½ cents per share on the Preference stock, \$2.10 series, and 40 cents per share on the Common stock, all payable January 20, 1970 to stockholders of record January 6, 1970.

WILLIAM H. DYKSTRA
Treasurer

December 23, 1969

BOSTON EDISON COMPANY

Common Dividend No. 323

A quarterly dividend of 52¢ per share on the Common Stock of the Company has been declared payable on the second day of February, 1970 to stockholders of record at the close of business on January 9, 1970.

Preferred Dividend

A quarterly dividend of \$1.06 per share has been declared payable on the second day of February 1970 to stockholders of record at the close of business on January 9, 1970 of the Company's Cumulative Preferred Stock, 4.25% Series.

Preferred Dividend

A quarterly dividend of \$1.19 per share has been declared payable on the second day of February 1970 to stockholders of record at the close of business on January 9, 1970 of the Company's Cumulative Preferred Stock, 4.78% Series.

Checks will be mailed from Old Colony Trust Company, Boston.

JOSEPH P. TYRRELL
Vice President and Treasurer
Boston, December 22, 1969

THE MARKET AND YOU

By WALLACE STREETE

The market is up to its year-end tricks but has become no more predictable for it.

What looked like the beginning of seasonal strength as tax selling pressures lifted, took on a seedier aspect early this week after the recovery effort failed to generate any follow-through.

Once again, enough strains are showing to push serious investors to the sidelines to await some resolution of the trading crosscurrents.

That may not come before investors get a better fix on the economy and how the business trend will affect the monetary policies being bird-dogged so assiduously at every turn.

There have been more than enough outpourings from the economists — in and out of government and the banking system — to send investors off on a half-dozen different scents.

Waage's Doleful Comments

Right on the heels of a better market tone provided by top Presidential economic adviser Paul McCracken — who flirted publicly with the idea that the time may be near for Fed reins to be loosened — came a chilly blast from Thomas Waage, spokesman for the Federal Reserve Bank of New York.

Waage left no doubt that the New York Fed hasn't abandoned its characteristically tough line on money. If tax and budget policies don't do a better job on the anti-inflation front, he said, then money tightness may have to be prolonged.

Waage noted that recent legislation and appropriations measures approved by Congress threaten to eliminate much of the restraint provided on the fiscal side.

"There is now the prospect that monetary policy will be forced to take on more of the task of subduing inflation," he said.

Meanwhile, at least two other prominent economists were heard to call for some form of control over prices and wages. One respected voice suggested the President implement a kind of "freeze" for six months or so to help the inflation fighters.

Business Outlook Puzzling

Coupled with forecasts ranging anywhere from "slowdown but no recession" to "major recession", these glimmerings contribute little to the well-being of investor sentiment.

And as unfavorable economic news continues to unfold in the early weeks and months of the new year, it's not likely that the market will have discounted all eventualities, simply because there are so many of them that exclude the others.

The outlook, then, appears to be one of continued pressure on stock prices, offset to a yet-unknowable degree by the normal influx of reinvestment demand that reaches a peak in January.

More likely than not, Wall Street's verbal emphasis will revert to seasonal patterns. Year end rallies are among the most dependable, statistically, and brokers looking for even a faint

reason to be jollier aren't going to be passing up that cry.

But investors are just as likely to keep a pretty calm perspective on the matter, if only because of the uncertainty that continues to surround the course of the economy.

Nixon Adds to the Uncertainty

President Nixon added his own contribution to the period of watchful waiting that lies ahead when he signed the tax bill this week.

He did so reluctantly, he indicated, because of the revenue losses embodied in the bill in the form of higher personal exemptions and a larger-than-requested Social Security increase, among other things.

He also indicated he may take some action to blunt the inflationary aspect of the bill, without saying whether he is considering a form of tax increase or bigger spending cuts to bring the budget into balance.

For the market, this adds another wrinkle to the current confusion over how long monetary curbs will remain, how far business will slide and how drastically corporate profits will be clipped in the year ahead.

Past Downtrends in Corporate Profits

Some analysts foresee a before-taxes profit decline of 15 per cent from peak to trough in the current business transition.

In the business slowdown of 1966-67 — which was almost too small to be called even a "mini-recession" — profits fell slightly more than 8 per cent from high quarter to low quarter and about 5 per cent year-to-year.

In the mild recession of 1960, the peak-to-trough decline was nearly 17 per cent within a year-to-year drop of only 4½ per cent.

But in three other postwar recessions, the peak-to-trough attrition of corporate profits was greater — ranging from 24 to 27 per cent — and the year-to-year decline ran from 6 per cent to 18 per cent.

Analysts are moving toward a consensus of sorts that an experience at least as painful as that of 1960 can be expected in 1970. This is partly because there is less prospect now than there was in 1966-67 that monetary tightness will be reversed sharply enough to reflate the economic cycle.

Tight Money Fears

There is simply too much concern remaining over the vigor of inflationary expectations at the moment to lead economists to think that anything more than a gradual easing of monetary curbs can be expected, when it comes.

Right now, there also is growing concern that even a few weeks more of the kind of monetary clampdown the country has had for more than a year will increase the possibility of a business decline more comparable to those of 1948-49, 1953-54 and 1957-58.

Market Still Vulnerable

While the market can be said to have discounted at least part of what lies ahead, the uncertainties reflected in such forecasts can hardly be said to be conducive to runaway upside price action.

More likely, analysts believe, is a period of further vulnerability as economic trends jell, and possibly flat to mildly recuperative activity thereafter.

From a technical standpoint, analysts will be watching the trend of stock prices early in the new year.

Looking Backward

With but one exception — 1965 — the low set by the Dow Jones industrial average in December has never been broken later than mid-March in the 42 years (out of 70) in which the December low yielded to selling pressure. In 24 of the 42 cases, the low was broken in either January or February.

The Dow Jones industrial average closing low in December was the 769 mark set at mid-month, which remains the 1969 low at this writing.

In the years when the December low was broken, one analyst points out, the subsequent trend has been downward two-thirds of the time. In 23 of the last 34 years, an advance of less than 10 per cent from the December low before a substantial correction took place was followed by a downward market.

Thus, a failure of the Dow to surpass 840 in an early New Year rally will raise some questions among technicians over the outlook for prices for some months ahead.

(The views expressed in this article do not necessarily at any time coincide with those of the "Chronicle." They are presented as those of the author only.)

Named Diro



Mortimer M. Caplin

Mr. Mortimer M. Caplin a partner in the law firm of Caplin and Drysdale of Washington, D. C., was elected, on November 3, a member of the Board of Directors of Prudential Funds, Inc., which is based in New York City. Prudential Funds, Inc. is one of the pioneers in the management of oil and gas exploration programs.

Mr. Caplin was Commissioner of Internal Revenue for the period 1961 to 1964.

On leaving this position, Mr. Caplin received the Alexander Hamilton Award, the highest award conferred by the Secretary of the Treasury "for outstanding and unusual leadership during service as U.S. Commissioner of Internal Revenue."

OUR REPORTER ON GOVERNMENTS

By JOHN T. CHIPPENDALE

The past year of 1969 was one in which inflation and the boom plagued the economy, notwithstanding the restrictive fiscal and monetary policies of administration. It is always darkest before dawn, but so far there is not too much on the horizon to indicate the highest interest rates on record are about to give way to more normal costs of borrowing. Also the war in Vietnam, the longest one in our history, has not been closed out, hence this inflation-causing debacle is still with us. So we leave the old year of 1969 with all its problems with the hope that 1970 will bring with it a solution to our inflation problems and a return to more normal economic conditions.

A Year of Record High Yields

The upward swing in yields of all fixed income obligations during 1969 was very sharp, with the best yields in more than a century being available to the buyers of income. Another grave happening last year was the collapse of the municipal market. The upswing in yields was not confined to any particular sector of the fixed income market, because tax exempt rates and money market rates went up as well as capital market rates. Consequently, the investor was able to obtain record-high yields in all types of securities. One of the highest rates in the money market sector was the Federal Funds rate, which was quite a bonanza for the smaller banks with excess reserves as they were able to make a good thing out of the constantly advancing cost of borrowing by loaning their excess reserves to the banks which needed them.

Corporate bonds were the yield favorites of those who had funds to put to work for income because the new offerings of bonds, largely public utility obligations, gave the buyers larger and larger returns as the year went along. It was possible to acquire yields of more than 9 per cent on AAA bonds. From the highest-quality bond down to the BAA classification the yield went above 10 per cent, levels which were not even dreamed about at the start of 1969. If the inflation fighting forces have been successful as some claim they have been, then the highest interest rates on record in some instances are not likely to be leaving us all of a sudden.

Treasuries Were Not Immune

United States Government obligations were no exceptions to the rule, since these securities had to meet the competitive conditions in both the short-term and long-term borrowing markets. All-time new high yields were registered for Federal Funds, Treasury Bills, Treasury Notes and Treasury Bonds, even though the Government was not able to borrow funds on a long-term basis because of the 4¼ per cent coupon limitation on issues with a maturity date of more than seven years. Because of the near-term borrowings of the

Government, we have a very top heavy short-term Treasury debt with no prospects of the overall maturity date of the debt being extended to any appreciable degree as long as interest rates remain at today's record high levels.

Savings bonds were cashed in in sizable amounts during 1969, because of the very low rate of return on these payable on demand obligations. Moreover, the recent increase in the rate of return on these bonds to 5 per cent is still not a competitive rate under existing very high interest rates. If the cost of borrowing is to remain high for a long time, then the 5 per cent savings bond rate will have to be increased again if the cash-ins are to be cut down. Treasury bonds in the year 1969 lost more of their market value, going from a 25 per cent loss at the start of the year to more than a 33-1/3 per cent of their value by the end of 1969.

The big winner last year in the fixed income market was the buyer of yield, which reached levels that had never before been available to the income-minded investor.

Bebe Zadek At Lexington



Bebe Zadek

ENGLEWOOD, N.J. — Miss Bebe Zadek has been appointed director of sales promotion at Lexington Security Managers, Inc., 163 Engle Street, it was announced by John L. Schroeder, president.

In her newly created position, Miss Zadek will be responsible for the promotional activities of the affiliates of Lexington Security Managers, Inc., including Piedmont International; Renyx, Field & Co., Inc.; Templeton, Dobbrow & Vance, as well as the Lexington group of mutual funds.

Since the organization is international in scope, Miss Zadek's responsibilities include working with broker dealers, investment counselors and analysts, and salesmen, as well as the public, on a world-wide basis.

Before joining Lexington, Miss Zadek was for ten years promotion director of Kalb, Voorhis & Co. (Washington D.C.), specialists in services to the mutual fund and insurance fields. Her earlier background was in retail and agency advertising.

SECURITY SALESMAN'S CORNER

By John Dutton

A Realistic Approach To The Commission Scale

During the past year there has been a reappraisal of the overall profitability of many investment firms. It is not surprising that the heaviest sales volume in history has created very serious problems. Any individual connected with the merchandising, retailing, market making, or underwriting of securities, has a stake in the continuance of a healthy securities industry. This fact is indisputable. Without a profitable industry the entire free market system, upon which this nation conducts its existence economically, is at stake. The problem is much more serious than the effect upon any one salesman's earnings, or the profitability of any particular firm. The welfare of our economy depends upon our ability to conduct profitable investment and brokerage firms to meet the needs of an expanding economy.

If we are going to require better computerized systems, they will cost large sums of money and capital investment. If we are going to train, staff, and hold forth career futures for capable management talent at all levels, this will require profitability, and the promise of future regards that will be competitive with opportunities in other lines of endeavor. I have been asked whether or not it is my opinion that our business holds any real future for a capable and dedicated individuals. At least five very capable men who are now in management, and who are friends of mine, have resigned management positions during the year just past. Others are considering going into other lines of business. I am sure that this may not be a surprise to many of you.

Everyone's Problem

Meanwhile, there is a possibility that commission scales in the sales department of the securities business at all levels are going to be reduced. There have been statements made by representative spokesmen for the industry that the greatest beneficiaries of the increased volume during the past few years has been the individual salesmen. Studies have been made of the profitability of salesmen as it pertains to the size of their individual commission per transaction. Regardless of the verdict, it would be short-sighted and self-defeating to require that the salesman carry more than his share of the attempt to improve overall profitability. It would be surprising if the knowledgeable leaders of the investment industry would attempt to solve this problem by placing the major burden on the salesman.

This is not the time to discourage the dynamism of salesmen. It could be that a constructive program of commission rearrangement, if properly presented, could meet with the approval of most men in the sales organization. Certainly there is much to be said for

raising the limit on unprofitable transactions so as to reduce losses. Possibly the salesmen who are developing profitable business, and who average a high individual average commission per trade, could be compensated accordingly. This would repay them for handling the occasional but necessary small transactions.

Management Has An Obligation

In spite of the admitted burdens that management now carries, there is a great need for improvement in the operational department of our entire industry. No one should castigate the hard working men who are trying to improve this situation. Some of them are working harder than they ever did before in their lives, and for less compensation, yet the sticky back office foul-ups continue. There may be some improvement in the case of specific firms. In fact, I have heard of many instances where the problem has been largely solved. Yet, there are still many firms that are laboring an accumulation of difficulties in the back office.

There is a great need for new equipment that will expedite orders, correct errors, and facilitate transfer, register, and shipment of securities. But there are also possibilities of beefing up the quality of the operational departments themselves. The labor situation in New York City is bad. Many firms have tried to hire better quality employees at the clerical and middle management level, only to give up the effort as fruitless. Other firms have tried training programs, and after a few months these graduates of their own schooling have left them to take jobs with other firms at a higher salary level.

Possibly the answer cannot be found by conventional methods. But this problem must be solved if we are going to carry the load during the years that lie ahead. It may take decentralization of the present big city monopolies of activity in this area to resolve this very serious problem. The computerization of ownership evidence of common and preferred stocks could be a solution to the vexing situation that now exists; not only in brokerage firms but also the banks that must process all this paper.

In conclusion, I truly hope that this coming year will see some progress toward profitability and better execution of our responsibilities to the public. I also hope that this will be accomplished with a minimum of friction and unfair discrimination against any segment of the industry. Management has the responsibility of improving the current unsatisfactory operational and unprofitable condition of our business. The sales department should contribute its good-will, its assistance, and its share of the financial burden should be allocated fairly. If this is done,

there is certainly no reason why the investment business cannot solve its problems.

HAPPY NEW YEAR TO ALL!
(This marks the 30th year I have said this to all of you from this vantage point.)

(John Dutton is the pen name of William S. Baren, a registered representative employed by a member firm.)

Common Offered By Programmed Bookkeeping

An initial public offering of 315,000 shares of Programmed Bookkeeping Systems, Inc. common stock is being made through D.H. Blair Securities Corp. at a price of \$7 per share.

Of the shares offered, 131,145 are being reserved for sale at the public offering price to shareholders of Programmed Proprietary Systems, Inc., which previously owned all of the stock of the company.

Net proceeds from the offering will be used to finance and expand the company's franchising activities, for purchase of equipment and supplies, for research and development, for expansion of staff, for possible acquisitions and for additional working capital.

The company based in Mineola, N.Y., and formerly a

wholly-owned subsidiary of Programmed Proprietary Systems, is in the business of marketing a computerized bookkeeping system, a "one write" manual bookkeeping system, and the processing on computers of the data derived from use of such systems. Sales of the systems are made through franchisees to accountants for their use and for the use by their clients.

The company is presently entering the operational stage and has no history of operations or earnings.

Upon the completion of this offering there will be 1,629,407 shares of common stock outstanding.

Units Sold By Computer Careers, Inc.

The public offering in units of 100,000 shares of Computer Careers, Inc. common stock with warrants to purchase 100,000 additional shares is announced by Winston, Perry & Co., Inc., New York. Each unit consists of one common share and one warrant, priced at \$6.50.

Proceeds from the offering will be used for working capital.

Computer Careers, of Newburgh, N.Y., is engaged in the operation of a data processing school.

Phila. Inv. Assn Elects



Andrew Schaufler

PHILADELPHIA, PA. — C. Andrew Schaufler, a vice president of A. Webster Dougherty & Co., Incorporated, has been elected president of the Investment Association of Philadelphia. Mr. Schaufler succeeds Charles P. Pydych of The First Boston Corporation, whose term expired.

Other officers elected were: Daniel H. Fisher, Jr. of Woodcock, Moyer, Fricke & French, Inc., vice president; Herbert E. Sawin, II of DeHaven & Townsend, Cronter & Bodine, secretary and Ronald J. Graczyk of Butcher & Sherrerd, treasurer.

TIME IS MONEY

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A directory of names, addresses and telephone numbers of most security underwriters, stock brokers, OTC dealers and mutual funds throughout the United States is now available for general distribution.

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1970 — A Decision Year For Blue Chip Stocks

Continued from Page 1

(1) Relatively high growth rates are necessary to insure even minimally acceptable returns under rapid inflation.

(2) The investor who takes out his return in the form of growth, has the advantage of an income-tax shield compared to one who takes out his return in dividends.

(3) Inflation plausibly increases the investor's willingness to take risks in order to get rapid growth since only rapid growth offers him the possibility of offsetting inflation.

(4) High-grade, dependable growth issues (IBM, Eastman Kodak, American Home Products, etc.) are likely to sell at very high multiples, and deservedly so.

In support of the fourth point, one may evaluate IBM's historic 17 per cent per year average growth rate in earnings (and dividends). Assuming a one per cent dividend paid on current price (\$3.20 was the March 1969 rate on a price around 300), the expected real return with 1968's 4.7 per cent in consumer prices and a 40 per cent income tax rate would still be 9.50 per cent. By contrast, General Electric's earnings over the past 10 years have grown at a 3.6 per cent rate. The \$2.60 dividend on a price of \$6 (March, 1969, figures) yields 3.0 per cent. At 1968's inflation rate, the return to a 40 per cent bracket taxpayer would be -0.02 per cent.

Behind The Company Scenes

Finance has its inevitable counterpart in the real tissues of economic life. Stock market prices reflect through time the ebb and flow of economic values in the underlying companies. In the final analysis and despite passing gusts of speculation, stock prices represent capitalized earning power, and this in time must reflect changes in the resources and economic capabilities of the companies themselves.

In principle, inflation neither creates nor destroys wealth. Instead, it brings a forced transfer of wealth among various economic classes: from lenders to borrowers; from hoarders to spenders; from low-leverage, non-borrowing companies to high-leverage, aggressively borrowing enterprises; from traditional industries, whose assets are static or slow-growing, to new industries which are straining credit to the limit to tap rapidly expanding markets.

The mechanism of these wealth-transfers, and the rate at which they were being made in the four years 1965-1968, are certainly no secret to the economically initiated. These transfers were being made through (1) the inflationary creation of credit, (2) the rapid acquisition, at current prices, of real assets by aggressively borrowing firms — plant, equipment, inventories, and with the conglomerates, entire companies, (3) a sharp ensuing rise in the price level and in the cost of replacing business assets.

(4) the resulting inability of older, less dynamic companies to replace plant, equipment, and inventories at their original dollar cost. Consequently, the older blue-chip companies are being forced to accumulate out of net earnings enough funds to piece out inadequate

depreciation and inventory allowances. From the investor's standpoint, the result will be either (1) a failure by these companies to raise dividends as rapidly as in the past, or (2) actual cuts in dividend payments for the purpose of conserving cash.

Wealth's Forced Transfer

The foregoing brief explanation illustrates why inflation involves an enforced transfer of wealth. By borrowing and spending at once, the growth companies obtain economic resources which they will pay for later in depreciated money. At the same time, the older, non-borrowing companies are being forced to restrain or reduce dividends in order to replace assets on a risen price level. The gainers from the credit expansion which launched the inflationary movement are the stockholders of the hard-borrowing growth companies. Their gains are offset (in both real and money terms) by the losses which the blue-chip stockholders sustain through smaller dividends and more costly asset replacements.

A second reason why blue-chip companies suffer from inflation is the asymmetrical flexibility of prices and wages, which rise quite readily but which are almost rigid against declines. Inflation raises wages and other production costs; it also increases the public's spending power. In these circumstances, growth companies find it easy to raise prices enough to cover rising costs; by definition, these companies operate in sectors with strongly expanding demand; the goods they sell are in inherently short supply, and producers enjoy a seller's market. (Many growth companies sell most of their output to the government which, as the history of military expenditure shows, is willing to pay almost any price and often buys on a cost-plus basis.) By contrast, blue-chip companies operate in established industries with slower-growing demand. Substantial excess capacity and conditions of monopolistic competition put a strong brake on price increases. In industries dominated by a few giants, one competitor by cutting prices or failing to go along on an increase, may expand its volume enough to make large profits at the expense of its rivals. (3).

Far from affecting all corporate earnings alike, inflation is likely to accelerate profitability and earnings growth for newer companies and retard them for larger, long-established firms.

Stock markets of the past four years appear to have recognized these facts, implicitly at least, in the opposing price trends which have so often prevailed:

New companies up, old companies down;
Small companies up, big companies down;
Aggressive borrowers up, conservatively financed companies down;
Wild expanders up, stable companies down; and, of course,
Growth stocks up, blue-chips down.

Good-Bye Mr. Blue-Chips?

Shall we kiss blue-chips goodbye? Hardly yet. Even now,

we write to the consciousness of a growing if badly overdue, squeeze on the financial system aimed at taming inflation. It is too early to judge whether Mr. Nixon and the Fed have the political courage and patriotism to see the anti-inflation battle finally won. (4). This will mean sitting on the money supply hard enough to slow down spending, force unemployment up, squeeze profits down, in short bring on a recession to correct the evils of an artificially prolonged boom. But if they do, then financial strength and high liquidity will almost certainly restore the blue-chips to investors' favor.

There are two reasons: First, restoration of something approaching the 1.5 per cent per year price-level rise of 1959-64 would raise the real worth of overall returns from blue-chips at a relatively faster rate than it would increase the real worth of growth issues. (5). Blue-chips would be worth more in a less inflationary climate. Second, money supply in the future would almost certainly be kept under a tighter rein. Strong, soundly financed capital structures would reassert their importance as a market factor. Many growth companies would face greatly reduced borrowing powers and would be obliged to cut back sharply on expansion and new ventures. (6) Some badly-financed enterprises might fall apart. The old-line blue-chips with comfortable cash flows and large liquidity ratios would then be in position to pick up the pieces dropped by their more energetic but financially anemic rivals.

Whether this will happen is still doubtful, as the March stock markets showed. (7).

Naught Left But Speculation

Assuming that, as in 1966, the authorities again lose their nerve — with Vietnam, strikes, race riots, or other excuses precluding a return to reasonable honest money — what then for the investor? Will he be forced to speculate to have any chance of preserving the family nest egg?

I wish (not least on my own account) that my answer would be no. I fear it must be yes. All rational courses open to the investor would then involve speculation. But he would have some choice about how he speculated and the kind of risks he runs.

Two Choices Open

Of several choices open to the investor, let me discuss only two. One is to play the growth stock game as the better mutual funds have done: simply buy established growth issues and hold them as long as their fundamental outlook remains unimpaired. This means, conservatively, IBM, Xerox, Merck, Polaroid, Bristol Myers, etc., or, in a more venturesome vein, smaller, younger, still faster-growing firms like EG & G, Becton Dickinson, or Kentucky Fried Chicken. Naturally, it pays to wait for a market dip and buy as reasonably as one's patience permits. One must reconcile himself to wide price swings in such high-multiple stocks. (8) The investor's hazard is that sooner or later stocks selling 30-60 times earnings will encounter

slower growth or even — like Litton — a fall in earnings. If this happens, multiples fall faster than profits, and stock prices can easily shrink to a third or quarter of their erstwhile inflated levels. (9)

An alternative for the inflation-hedging investor is to "trade" in blue-chips. Even if these stocks are headed nowhere in the long run, their prices have worthwhile swings. A year seldom passes in which Standard of Jersey, Telephone, and General Motors fail to show price swings of at least 20 per cent. The study of price charts on these stocks also suggests that many of these swings are between fairly predictable limits — old support and resistance prices. (10) A certain range of P-E ratios, and particularly certain minimum and maximum yields. It is hardly debatable, for example, that in the past the three stocks mentioned above have been purchasable with minimal risks when yields were 5 per cent, and should have been sold whenever yields dropped as low as 3½ per cent. (11).

How long blue-chips will continue their two-way price swing depends on future inflation. If inflation is permanently and convincingly reduced, blue-chips may again become America's premier long-term investments. Under "stop-and-go" inflation, marked by repeated alternations of tight and easy money, blue-chips would make excellent trading stocks through wide, predictable swings in price. If inflation speeds up and is here to stay, the blue-chips are finished. The nation's financial structure will then have to be restructured to operate on bank credit, forced savings, and wide-spread government controls. In such an environment, the old-line companies would certainly be kept alive to help maintain full employment, but neither government nor inflation would allow them to earn more than enough to keep their capital intact; after a few years, nothing would be left over for stockholders.

Summing It Up

Thus the ending of 1969 could usher in a decisive year for blue-chips. They are not yet, like bonds, ready for consignment to the intelligent investor's scrap heap. That fate will await them however, a few years down the road if inflation is not reduced convincingly within a year or two at longest.

1. Standard & Poor's Composite index of high grade bond prices has fallen from 121.6 in May, 1946, to 72.27 in January, 1969. Against average 1946 yields of only 2.51 per cent, high grade bonds issued in March, 1969, typically carried yields of more than 7½ per cent. Con Edison's \$80 million of A-rated bonds brought to market March 19, 1969 yielded 7.90 per cent.

2. Although earnings on the Dow Jones Industrial Average of 30 blue-chip commons rose from \$51.45 per hypothetical share in 1965 to \$57.93 in 1968, an increase of about 12½ per cent, year-end prices on the average were 969.25 and 896.01 respectively, a decline of almost 8 per cent. By contrast Standard & Poor's indices of stocks in growth industries scored major price gains over this same interval: drugs up 50 per cent, soft drinks up 66 per cent, electronics up 73 per cent, and office equipment up 87 per cent.

3. This is because with large fixed costs profit is highly sensitive to volume. Assume four oligopolistic firms each with fixed costs of \$1,000 and variable costs of \$5 per unit selling 700 units each at a price of \$10 per unit. Each firm would have profits,

disregarding taxes, of \$2,500. Now assume variable costs per unit advance to \$5.50. Firms A, B, and C raise their selling price to \$10.50 per unit, but D holds the old \$10 price. For A, B, and C, volume falls to 600 units and profits to \$2,000 — \$6,300 sales less \$1,000 fixed costs and \$3,300 variable costs. D, utilizing excess capacity, expands its sales volume to 1,000 units, and its profit to \$3,500 — \$10,000 sales less \$1,000 fixed costs and \$5,500 variable costs. To protect market shares and profits, A, B, and C would have to rescind price increases. At former market shares, each company would now have profits of \$2,150 — \$7,000 minus \$1,000 fixed costs and \$3,850 variable costs. For simplification, this example ignores the question of price elasticity in the industry market.

8. It seems naive to think that the anti-inflation battle can be won without reducing employment to slow down consumer spending or cutting profits to slow down business spending. Faint-heartedness of the Federal Reserve Board and Johnson Administration in relaxing the 1966 "credit crunch" has produced widespread and stubborn expectations that the authorities lack the courage to tighten money to the point of affecting employment or profits. See "Abeast of the Market" in *The Wall Street Journal* for Monday, March 17, 1969, particularly the remarks of Bradbury K. Thurlow. Also "Businesses Indicate They Must and Will Maintain Borrowing Pace Despite Price," *Journal*, p. 12, March 18, following the increase in the prime rate to 7½ per cent. Many companies, notably blue-chip firms, are virtually immune to a credit squeeze as a result of firm credit lines already negotiated with bank lenders or through heavy bond flotations wisely made during the Federal Reserve's 1967-68 era of stop-jar liquidity. Nominal rates of loan interest are now high, but real rates are still comparatively low. At a 50 per cent income tax rate, the Treasury absorbs half the cost of corporate borrowing anyway. Even without regard to the tax saving, a 7½ per cent interest rate with 4½ per cent annual inflation is no higher than a 4½ per cent interest rate with 1½ per cent inflation. On this basis, real rates are no higher in March 1968 than they were in 1962-1964.

It seems apparent that the only way for anti-inflation measures to reach well-heeled business spenders is through a slowdown in sales and profits, and a sharp and well-advertised rise in unemployment seems the only way of exerting predictably strong restraint on consumer spending.

5. If inflation declines to 3 per cent annually, the blue-chip return could rise from 1.32 per cent to 3.2 per cent, a 152 per cent increase; the growth stock's return could increase from 4.37 to 6.2 per cent, rising 42 per cent.

6. Since growth companies need to expand plant, equipment, inventories, receivables, etc., at relatively high rates, they are always subject to greater financial strains than established companies with more moderate rates of business increase. See my discussion of this point in connection with rapidly growing office equipment firms, notably Xerox Corporation, in John C. Clendenin and George A. Christy, *Introduction to Investments*, 5th Edition, New York, McGraw-Hill, Inc., 1969, pp. 417-418.

7. The ability of the Dow Jones Industrial Average to rally from the 900 level in the face of a further rise in the prime rate and record yields on new high grade utility and municipal bonds suggests at least an interim plurality opinion among traders and investors that the authorities' bark is worse than their bite. "Stocks in Short" offers this reinforces the views that the battle against inflation must be more than a mouth-fight, and that it must reach the "real" economic variables of spending, employment, and profits.

8. The investor interested in timing and selection strategies appropriate to trading in high-multiple growth stocks should obtain a copy of an excellent book, *Creating Performance Portfolios*, published in 1968 by Dallas investment counselor Norman Freeman, 8609 Northwest Plaza Drive, Dallas, Texas 75225.

9. Witness Automatic Sprinkler Corporation's decline 1968-69 from 74 to 20½. Or Brunswick Corporation's 1961-65 plummet from 74½ to 7½. Litton's deflation was from 120½ in 1967 to a low of 48½ through March 17, 1969; the accompanying decline in annual earnings 1967-1968 was from \$2.66 to \$1.79 per share.

10. A support price is one at which one or more previous declines have ended. A resistance price is where one or more rallies have topped out.

11. The accompanying reasoning based on the price behavior of these blue-chips over the past two decades suggests that at normal or "central value" prices these stocks would yield 4½-4¾ per cent.

1776 Equity Corp.

DALLAS TEX. — 1776 Equity Corporation is engaging in a securities business from offices in the LTV Tower. Officers are James P. Houren, chairman and secretary-treasurer; and Robert E. Hudspeth, president.

M. S. Wien 50th Anniversary



At a festive party in the Harbor View Club overlooking the twinkling lights of lower New York, friends and employees of M.S. Wien & Co., Inc. joined Percy J. Wien, President and Treasurer and his son, Stephen, Vice President and Secretary to celebrate the firm's fiftieth anniversary.

M. S. Wien was founded by the late Melville S. Wien in 1919 when he was 22 years old. Mr. Wien recognized a growing need for a firm that would specialize in foreign exchanges and foreign currencies possessing expertise in these areas. He opened his own office and invited his brothers Percy and Irving, and his brother-in-law, Joseph J. Lann to join him.

Asked how the firm fared in the early days, Mr. Wien remarked that the OTC market was quite different from present day techniques.

The firm soon expanded into foreign securities and domestic bonds.

As the years passed, M.S. Wien & Co. gradually shifted its activities and emphasis to where today the firm specializes in domestic over-the-counter stocks.

The firm presently maintains markets in approximately 1100 issues, making them one of the largest market makers in the country, and employs 145 people in their Jersey City, New Jersey headquarters. M.S. Wien & Co., Inc. is also correspondent for over ten firms in key cities throughout the nation. The firm has recently opened branch offices in Philadelphia, Denver and contemplates the opening of an office in Miami.

Stephen S. Wien joined the firm in 1954 after graduation from Brooklyn College. He was admitted as a partner and appointed Cashier in 1956. Upon the passing of Melville Wien in 1958, Stephen entered the Trading Department.

Fin. Public Relations Seminars

The "communications gap" between lawyers and financial public relations men is growing at a time when the federal government and stock exchanges are applying increasing pressure for companies to follow a timely disclosure policy.

To help clear the air and define practical ways in which lawyers and public relations men can work together in the era of fast corporate change, Practising Law Institute, in cooperation with the Public Relations Society of America, will present a two-day seminar on **Financial Public Relations**, January 16-17, 1970, at the Essex House, New York City; and February 12-13, 1970, at the Beverly Hilton Hotel, Los Angeles.

The program will offer new insights to the prudent counselor on how to handle questions involving prospectuses, reports, proxy solicitations, and security analysts' meetings. Takeover bids, merger negotiations, and other acquisition efforts will be scrutinized. Decisions about the marketing of new products,

major technological breakthroughs, and innovations will also be discussed.

Faculty for the program include: William E. Chatlos, Georgeson & Co., New York City; James F. Fox, President, James F. Fox, Inc., New York City; John A. Gearhart, Director, Investor Relations, RCA, New York City; Gordon D. Henderson, Barrett, Knapp, Smith & Schapiro, New York City; Ralph C. Hocker, Associate Director Division of Corporate Finance, Securities and Exchange Commission, Washington, D.C.; and James C. Sargent, Parr, Doherty, Polk & Sargent, New York City.

For further information contact the Practising Law Institute, 1133 Avenue of the Americas, New York, N.Y. 10003; telephone (212) 765-5700.

For J & H Equity

J & H Equity Corporation is engaging in a securities business from offices at 63 Wall Street, New York City.

IDS Names Nine V.P.s

MINNEAPOLIS, MINN. — Investors Diversified Services (IDS) has named nine new vice presidents, it was announced by Stuart F. Silloway, IDS president.

The new IDS vice presidents are:

William H. Dudley, portfolio manager for Investors Stock Fund since January, 1968, now vice president and portfolio manager; Arthur W. Flannagan, general manager of customer relations since July, 1968, now vice president — customer relations; Joseph F. Grinnell, general counsel since September, 1962, now vice president and general counsel; Alfred Harrison, portfolio manager of IDS Progressive Fund for the past year, now vice president and portfolio manager.

Also, Robert H. Healy, portfolio manager for Investors Variable Payment Fund since June, 1968, now vice president and portfolio manager; Jay M. Hines, general manager of sales training since January, 1967, now vice president — sales development; Robert B. Johnson, director of investment research since June, 1968, now vice president — investment research; Robert M. Kurzeka, general manager — sales administration since May, 1965, now vice president — sales administration; and Eugene C. Sit, portfolio manager for IDS New Dimensions Fund since June, 1969, now vice president and portfolio manager.

Blair Appoints Dept. Mgr.

Eugene M. Smith has been named manager of the Investment Management Department of Blair & Company, Inc., members of the New York Stock Exchange, in its 20 Broad Street, New York office.

Prior to joining Blair & Company, he was Second Vice President of the Omaha National Bank.

Rail Freight Car Output Orders, But Not Backlog, To Decline

The freight car shortage will not be helped next year in view of plans to produce 400 less cars in 1970 than this year's 65,000 total. The latter was 16 per cent more than 1968's tally. Orders anticipated in 1970 are put at 63,000 cars, 9,000 less than in 1969, and the order backlog is seen staying about the same despite the large ton size of the units produced.

Although beset by rising costs and the prospects for a cooled-down economy, the railroads of America in 1970 will take delivery of 64,600 new freight cars costing approximately \$1.1 billion, it was estimated by the American Railway Car Institute.

This represents a decline of only 400 cars from the 65,000 the A.R.C.I. calculated would be delivered in the year now drawing to a close. The study is the work of the institute's Marketing Forecast Committee, on which are represented 16 railroads, nine builders of freight cars and 14 suppliers of railway equipment.

Walter A. Renz, president of the A.R.C.I., said the committee also calculated that deliveries to railroads would resume their rise in 1971, reaching 67,000 cars. The 65,000 freight cars anticipated for 1969 constitute a rise of 16 per cent from the 56,232 cars produced for the railroads last year.

Freight Car Cost

Renz said that a freight car on average costs \$17,000. While committee members were "reasonably optimistic" about the carbuilding outlook, Renz said prospects could be enhanced by passage in Congress of pending legislation to permit five-year amortization of rolling stock and "equity for the carriers in the red-ink passenger-car field," a longtime drain on railroad resources. He added:

Washington has demonstrated its awareness of the freight-car shortage, which has already hampered a wide area of the economy. The railroads, of course, have an overriding stake in providing an ample supply of modern cars if

they are to retain their share of the inter-city freight market, now at 41 per cent."

Renz said the carriers have been scrapping cars at an annual average of 85,000 units, which he termed "far in excess of replacements." He continued:

"Even allowing for today's larger capacity cars, if the railroads are to maintain their share of growing transportation market, they should be replacing the scrapped fleet."

Renz noted that William G. Clayton Jr., president of Southern Railway, had forecast an increase by the rails in their share of the freight business and said this was attainable "with new equipment and improved service." Meanwhile, he said, the railroads were handicapping themselves through the inadequacies of their car fleet. Estimating railroad ton miles — a ton of freight hauled one mile — would rise next year by about 2 per cent to 792 billion from 1969's 777 billion, Renz said "the need, as usual, is there, even if the cars aren't."

Decline In Order

Orders for railway cars in the new year are expected to decline from 1969's level of 72,000 by more than 12 per cent to 63,100. However, Renz's committee envisions a rise of nearly 10 per cent to 69,300 in ordering in 1971 from the preceding year. Orders for 1968 amounted to 63,556 cars.

The Market Forecasting Committee projects a backlog of car orders totaling 38,740 as of the end of this year and foresaw little change 12 months and 24 months hence. Members forecast a backlog of 37,240 cars for Dec. 31, 1970, and 39,540 cars for the end of 1971.



NEW YORK — Executives from C. Itoh & Co., Ltd., one of Japan's largest trading companies, sign underwriting agreements for a \$15 million offering of 20-year convertible debentures for the Eurodollar market. The Japanese businessmen met with representatives of the international group of underwriters making the offering outside the United States. From left to right are Gordon Calder, Lehman Brothers; Naomichi Toyama, The Nikko Securities Co., Ltd.; Yoshio Mizoguchi, Senior Managing Director of C. Itoh; Walter P. Stern, research partner of Burnham and Company; and Eikichi Itoh, Chairman of the Japanese firm. The debentures are not being registered with the Securities and Exchange Commission and will not be offered in the United States or to U. S. nationals or residents. C. Itoh & Co., Ltd., with \$4 billion in sales annually, is one of the four major trading companies in Japan whose products include machinery, foodstuffs, raw materials, textiles and petroleum products.

THE STATE OF TRADE AND INDUSTRY

Steel Production • Electric Output • Carloadings • Retail Trade
Food Price Index • Auto Production • Business Failures • Commodity Price Index

New Year's Greeting From Index Of Twelve Leading Indicators

Were there an index to measure the "doom and gloom" in the air about this year's (1970) business prospects, the chances are it would show a very wide divergence from what the Bureau of the Census' composite of twelve leading indicators have to say. The index reflects a fractional drop of less than one per cent from 1969's rising trend to data.

The Commerce Department's Census Bureau is the careful compiler of this famous composite index which was pioneered and developed by the National Bureau of Economic Research. All of the post WW II recessions were quite accurately foretold by this lead composite index.

The high for the composite index was 153.6 (1963 equals 100) scored only three months ago, September, and the latest reading for November shows a preliminary index of 152.5 — off 0.7 per cent. November's index is 0.6 per cent below the 153.4 figure for October. The third quarter index level was 152.5 per cent — identical with the November reading. That third quarter index level was 152.5 per cent — identical with the November reading. That third quarter average was 7.1 per cent above 1968's period.

The November composite is 3.5 per cent higher than 1968's month. In view of the year's quarter-to-quarter change noted above, an increase this past third quarter of 7.1 per cent, and a November-to-November increase of 3.5 per cent, it can be concluded that the rising trend of 1969 through November has been at a declining rate.

The big question, of course, is whether the recent fractional changes will continue, and more seriously, at an increasing rate.

Only eight of the twelve indexes had November figures. None was available for Net Business Formations, Corporate Profits After Taxes, Changes in Book Value of Manufacturing and Trade Inventories, and Net Changes in Installment Debt. Three of the four, however, have trended downward from their highs reached early in 1969 or late in 1968; one, changes in inventory book value is subject to erratic fluctuations and was showing this year monthly increases below the peak month of June, 1966.

The eight for which November data were available are:

1. Average Work Week — down 0.7 per cent from 1968's month and even with the preceding month of October. The latest reading of 40.5 can be compared with the peak 41.6 way back in February, 1966;

2. Average Weekly Initial Unemployment Claims index has deteriorated 12.6 per cent from 1968 and from the prior month. The current 214 average is far above the peak low of 176 in April, 1969. This index, however, reflects the length of the General Electric strike which has now

made the strikers eligible for unemployment benefits. The strike, in turn, has rippled across the electrical equipment industry affecting employment in consumer durable goods, business equipment, and industrial materials and parts.

3. The composite was boosted from 1968's level by 4.3 per cent increase in the Value of Manufacturers New Orders — Durable Goods. The index of 30.57 can be compared to October's 31.70 and the 32.14 peak in September, 1969;

4. Contracts and Orders for Plant and Equipment, also, thrust the index forward from last year with a 4.9 per cent increase. Its 7.65 level, however, is below the 8.0 reading for October and the 8.65 all time high achieved just this past September, 1969;

5. The Ratio of Wholesale Prices for Industrial Commodities to Labor Costs per Unit of Output continued to deteriorate. Labor costs managed to increase faster than rising prices by 0.2 per cent and its November 98.6 per cent reading was below the small improvement in the first part of last year. The most favorable ratio was 105.2 back in July, 1966. From then on, labor costs have been increasing overall faster than rising prices;

6. Index of Standard & Poor's 500 Stocks is down 15.1 per cent from December, 1968's high to December, 1969's preliminary figure. The November-to-November change put the stock index down 8.7 per cent.

7. Industrial Materials Prices are up 5.2 per cent from November, 1968, and even with October, 1969. The current 115.6 reading is below the peak of 123.5 in March, 1966;

8. New Private Housing Starts has plummeted 18.7 per cent from 1968's month and, at 96.8 in November, is off from 98.9 in the preceding month. The peak month of April, 1969, has an index of 125.5.

Thus, of the eight indexes making up the composite index, six were below October in minuscule amounts and two were identical with the prior months' figures. All of the indexes, however, were either above their counterparts in 1968 or quite close to the 1969 highs.

Obviously, these twelve leading indexes will require additional downward readings than we have at present in order to give that slide into the "U" curve which precedes a cyclical downturn — whether of a mild or serious recessionary nature.

Last week, after noting the four consecutive monthly declines in the Federal Reserve's Index of Physical Production, the first four such monthly declines since the 1960-1961 recession, we pointed out that the slide was less than that for the three consecutive months experienced in 1967 — after adjusting for the G.E. strike. We also noted that the Fed's Index of

Production represents but 35 to 40 per cent of GNP and, further, that the Fed's Index was running about 5.5 per cent ahead of 1968. Therefore, if the source of the 2 per cent or fractionally less growth in 1969's real GNP is to be accounted for, the answer lies in the economy's sectors outside of the manufacturing, mining and utilities measured in the Federal Reserve Board's Production Index.

The only real serious decline in the composite of leading indexes is housing. The additional danger signal besides housing, being flashed comes from labor costs rising faster than increasing prices. One of the twelve leading indexes shedding comfort is the leveling off of industrial material prices. While this may indicate a slowing of economic pressures, it may also invite an easing of monetary credit if its beneficence is felt through the economy — a battle objective which the monetary and fiscal authorities have refused to give up — so far.

If there is any comfort in the Census Bureau's leading composite index, it lies in the refusal to send a strong signal of an economic downturn, yet. Thus, what it portends, so far, is at great variance from the "gloom and doom" pervading the stock market, and the councils of economic forecasters as a whole.

An economics New Year's Greetings for 1970 might say the economy so far still looks happier than gloomier.

— Sidney Brown

Steel Production Finishes Strong

Raw steel production declined slightly during the holiday week, *Steel* magazine reported.

Producers are anticipating a pickup in shipments early next month. During the closing weeks of December, buyers ordered substantial volume for January delivery, including some backed-up December tonnage.

Steelmakers expect a fairly active first quarter in 1970, but look for the year as a whole to be off the record pace set in 1969. A slow, downward drift in orders is anticipated the next couple of months, suggesting the economy is definitely cooling off.

Raw steel production in 1969 set a record estimated at 141 million net tons, topping the 1968 figure by 7% and exceeding the previous record of 134.1 million tons set in 1966 by about 5%. Production in 1970 is projected at 131 million to 134 million tons.

Steel pointed out shipments of finished steel by U. S. mills in 1969 totaled almost 94 million tons, setting a record. That compares with 91.9 million in 1968 and the previous record 92.7 million in 1965. The second quarter was the best shipping period of the year. A drop in U. S. mill shipment to 88 million tons in 1970 is forecast by some steelmen.

Imports of finished steel into the U. S. declined about 21 per cent to around 14.2 million tons in 1969 from the record 18 million-ton intake of 1968. The drop was due to voluntary curtailment of European and Japanese exports to this country. Also, heavy European demand diverted much foreign steel from the U. S. that might otherwise have been marketed here. An increase in imports in 1970 is expected.

It's estimated U. S. steelmakers exported 4.7 million

net tons of semi-finished and finished steel products in 1969, the most since the 5.4 million tons moved out of the country in 1957, *Steel* said. The sharp increase over the 2.2 million shipped in 1968 reflected a strong world demand, principally for semifinished material by European mills — seeking to maintain capacity production of finished products. And it looks like 1970 will be another good year for exports.

Steel's price composite on the No. 1 heavy grade of steelmaking scrap rose 67 cents a gross ton to \$36.67 last week.

New Factors Will Shape World Steel In '70's

In the decade of the Seventies there will be a number of new factors to be considered by world steel producers, according to *Iron Age* magazine.

During 1969 there was a turnaround in supply and demand. The myth of excess world steel capacity was exploded. Going into the Seventies, the question becomes: will capacity be able to keep up with demand?

Given these considerations, *Iron Age* says that the decade ahead will be characterized by the following:

— 1. A shortage of world steel capacity could bring a race to catch up with demand. There doubtless will be slack periods. But, while U. S. Producers are forecasting an easing of the domestic steel market in 1970, no long-term relief from the basic tight supply is likely for at least five years.

— 2. Of critical importance will be a continuing shortage of energy coking coal, nickel and other materials, and transportation. This will force an even greater search for and investment in new sources of supply and the development of reserves.

— 3. Mills will begin to realize a payoff from their massive investments of the Sixties. But it will also become increasingly evident that for future investments there will be a need for a complete technological breakthrough that will enable them to lower costs of refining steel and to break their low profitability.

Eventually, mills will reach a technological impasse on their ability to lower costs through conventional processes. They are rapidly outrunning the advantages of sheer size alone. Capital costs are high and flexibility becomes limited as plant sizes go up.

— 4. There will be continuing investments in steel plants in developed and no-so-developed countries. American steel producers will seek more diversification out of steel. At the same time, they may look into more joint ventures abroad or straight foreign investments. However, the key here is the prospect for political stability — particularly in Latin America.

— 5. Australia, with major reserves of iron ore and coal, will become a major factor in the supply of steel to world markets.

— 6. Russia, continuing to fall behind in the achievement of its steelmaking goals, will be trying to catch up and will be anxiously looking for equipment in the West.

— 7. Smaller steel plants will continue to be built to serve

regional markets with a limited product line. Return on these mini-mills is good. Thus established steel companies, themselves, will put investments into smaller plants.

— 8. Steel customers, particularly in the U. S., may get into the steel business, themselves, making selected products for their own use — to take a small, but important share of the market.

— 9. World steel demand by the end of the decade will reach 1 billion tons a year. For the seventies, this means world steel markets will reflect a new vitality arising from strong demand.

Car Production Down Sharply in Holiday-Shortened Week

The U. S. industry built some 38,846 passenger cars last week, nearly half the 76,370 built in a similar period last year, *Ward's Automotive Reports* said.

GM which accounted for the bulk of decline, operated eight car assembly points last Monday and Tuesday. However, eleven were closed for inventory adjustment and four others were idled for model changeovers or by labor troubles. GM planned to build 16,775 cars, some 27,000 fewer than last year, the industry's statistical publication pointed out.

By a similar token, Chrysler Corp. worked only its No. 2 line at Hamtramck, Mich. last Monday and Tuesday, for a 2,200 unit output, some 10,000 fewer than last year. Previously, Chrysler had planned to work all lines at three assembly points. The move was prompted by further inventory adjustments.

An alleged shortage of parts also closed Ford Motor's Wixom, Mich. plant for the scheduled two days of last week, through that plant and all Ford operations are scheduled to work two days of this week.

American Motors, still attempting to recoup strike losses, registered the only gain over last year. AM's 2,496 units was a gain over the complete shutdown of last year.

Kaiser-Jeep, partaking in inventory realignment, worked two days last week, but will shut down thereafter until Jan. 12.

Of last week's scheduled car output, GM accounted for 43.2 per cent, Ford 44.7 per cent, Chrysler 5.7 per cent, and American Motors 6.4 per cent.

Failures off Sharply During Christmas Week

Slowing for the third straight week, commercial and industrial failures dropped to 103 in the week ended December 25 from 153 in the preceding week, reports Dun & Bradstreet, Inc. At the lowest level since the January 2nd Week this year, business casualties nevertheless exceeded the 85 occurring in Christmas week last year.

Wholesale Index at '69 High

Continuing to climb as 1969 drew to a close, the Wholesale Commodity Price Index, compiled by Dun & Bradstreet, Inc., reached 278.76 on Monday December 29, as it surpassed the previous week's 277.87 by 0.3 per cent for both a new '69 peak and

the highest level recorded in three and a half years. The index rose 1.3 per cent above the 275.29 of a month ago and 7.1 per cent beyond the year-earlier level of 260.16.

Inclement weather which forced farmers to hold back grain shipments, and traders' expectations that farmers will feed their animals grain to combat the effects of low temperatures spurred the gains in the prices of corn and rye. Wheat quotations firmed as a reflection of the authorization of sizeable purchases to India and an agricultural agreement with Vietnam. Silver prices remained higher as an after effect of the larger prices accepted at the weekly auction of the General Services Administration, and the cost of steel scrap jumped due to continued export activity and heightened consumer needs. Quotations for lambs, tin, yellow pine and Douglas fir also strengthened, while on the other side, oats, lard, steers and hides suffered pricing decreases.

Laird, Bissell Senior Officers



William C. Lickle

WILMINGTON, DELAWARE — William C. Lickle has been named Chairman of the Executive Committee and David C. Boyer, President, of the New York Stock Exchange member firm, Laird, Bissell & Meeds, Inc., it has been announced. Mr. Lickle was formerly President of the 70 year old stock brokerage firm; Mr. Boyer was Executive Vice President and Treasurer.

In the same announcement, Gerret van S. Copeland was named Executive Vice President and Treasurer. He had been Vice President.

Other senior officer positions remain the same. Mr. Lickle joined Laird, Bissell & Meeds in 1957 as a Registered Representative.

Mr. Boyer was formerly an officer with the Wilmington Trust Company and joined Laird, Bissell & Meeds in 1961 as a partner. He was elected Vice President and Treasurer of the firm in 1965.

Mr. Copeland joined the firm in 1964 and was elected to the Board of Directors in 1966. He is currently serving as a Floor Member on the New York Stock Exchange.

Considered the oldest and largest investment firm in Wilmington, Laird, Bissell & Meeds was founded in 1898. They are members of the New York and American Stock Exchanges. Laird, Bissell & Meeds, Inc. maintains offices in New York; Zurich; Salisbury, Md.; Dover, Del.; Newark, Del.; Boston; Hartford; Hartford; Fort Lauderdale; Boca Raton; and Winter Park, Fla..

Named Pres. Of Washington Bank



Joseph W. Barr

WASHINGTON, D. C. — Former Secretary of the Treasury Joseph W. Barr has been named President of American Security and Trust Company of Washington, D.C., it was announced by Robert C. Baker, who remains as Chairman of the Board and Chief Executive Officer.

Mr. Barr, who joined American Security in February of this year, as Vice Chairman of the Board, was elected to his new position at the regular meeting of the Board of Directors. Since leaving the Treasury Department in February, Barr has concentrated on administrative and planning activities at American Security and has spearheaded efforts of the Committee on Metropolitan Washington Banking to promote legislation enabling District banks to acquire interests in other banks within the National Capital Region.

Robert C. Baker joined American Security in 1946 and became president in 1959. He has been Chairman of the Board since 1962.

Mr. Barr, who became Secretary of the Treasury in the final months of the Johnson administration, had been Under Secretary since 1965. Before that, he was Chairman of the Federal Deposit Insurance Corporation. Mr. Barr is a native of Vincennes, Indiana, and enjoyed a successful business career in Indianapolis, before his election in 1958 to Congress, where he served on the House Banking and Currency Committee. In 1961 he joined the Treasury Department as Assistant Secretary for Congressional Relations. He served in the U.S. Navy in World War II as a Lieutenant Commander, and was awarded the Bronze Star during the Anzio action.

A.G. Edwards Appoints

DENTON, TEX. — St. Louis based A.G. Edwards & Sons, Inc. has announced that Glen Johnson, formerly of their Dallas, Texas office, has been transferred to their Denton Office, First State Bank Building, and has been made resident manager. He fills a vacancy created by the death of former manager James Parker.

The merger brings the total number of Edwards offices to fifty-nine.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week available. Dates shown in first column are for the week ended on that date, or in cases of quotations, are as of that date:

	Latest Week	Previous Week	4-Weeks Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:				
Steel ingots and castings (thous. net tons).....	Dec. 27	2,494,000	2,723,000	2,806,000
Index of production based on average weekly production for 1937-1959.....	Dec. 27	131.7	146.2	150.6
AMERICAN PETROLEUM INSTITUTE (00's Omitted):				
Crude oil and condensate output - daily average (bbls. of 42 gallons each).....	Dec. 19	9,502	9,494	9,277
Crude runs to stills - daily average (bbls.).....	Dec. 19	11,180	11,143	10,797
Gasoline output (bbls.).....	Dec. 19	40,576	39,842	40,835
Kerosene output (bbls.).....	Dec. 19	4,689	4,922	4,494
Distillate fuel oil output (bbls.).....	Dec. 19	16,868	17,103	17,061
Residual fuel oil output (bbls.).....	Dec. 19	5,101	4,734	4,840
Stocks at refineries, bulk terminals, in transit, in pipe lines.....				
Finished gasoline (bbls.).....	Dec. 19	203,348	201,337	195,539
Kerosene (bbls.).....	Dec. 19	20,672	20,524	20,140
Distillate fuel oil (bbls.).....	Dec. 19	184,182	189,710	203,929
Residual fuel oil (bbls.).....	Dec. 19	62,656	64,019	63,991
Unfinished oils (bbls.).....	Dec. 19	95,934	96,599	95,509
ASSOCIATION OF AMERICAN RAILROADS:				
Revenue freight loaded (number of cars).....	Dec. 20	N. A.	547,897	575,139
Revenue freight received from connections (no. of cars).....	Dec. 20	N. A.	436,584	444,807
COAL OUTPUT (U.S. BUREAU OF MINES):				
Bituminous coal and lignite (thous. tons).....	Dec. 20	N. A.	11,355,000	10,435,000
Pennsylvania anthracite (tons).....	Dec. 20	211,000	208,000	176,000
NEW CONSTRUCTION PLANNING (000's Omitted):				
Total advance planning.....	Dec. 25	\$1,664,300	\$1,634,600	\$1,244,200
Private.....	Dec. 25	737,400	755,000	661,800
Public.....	Dec. 25	926,900	879,600	582,400
State and Municipal.....	Dec. 25	859,600	682,200	577,300
Federal.....	Dec. 25	67,300	197,400	5,100
RETAIL STORES, DEPT. OF COMMERCE:				
(Millions of dollars, unadjusted).....	Dec. 20	N. A.	8,197	7,113
EDISON ELECTRIC INSTITUTE:				
Electric output (inc.000 kwh.).....	Dec. 27	N. A.	29,513,000	26,660,000
FAILURES (Commercial and Industrial)				
DUN & BRADSTREET, INC.....	Dec. 25	103	153	194
IRON AGE COMPOSITE PRICES:				
Finished steel (per lb.).....	Dec. 25	7.263c	7.263c	7.292c
Pig iron (per gross ton).....	Dec. 25	\$65.10	\$65.10	\$65.10
Scrap steel (per gross ton).....	Dec. 25	\$37.16	\$35.83	\$34.17
METAL PRICES (METALS WEEK QUOTATIONS):				
Electrolytic copper.....	Dec. 26	N. A.	52.249c	52.160c
Domestic refinery.....	Dec. 26	N. A.	71.975c	71.950c
Export refinery.....	Dec. 26	N. A.	16.500c	16.000c
Lead (New York).....	Dec. 26	N. A.	16.300c	15.800c
Lead (St. Louis).....	Dec. 26	N. A.	16.000c	16.000c
Zinc (delivered).....	Dec. 26	N. A.	15.500c	13.500c
Zinc (East St. Louis).....	Dec. 26	N. A.	28.000c	28.000c
Aluminum (primary pig 99.5%).....	Dec. 26	N. A.	179.750c	184.000c
Tin straits (New York).....	Dec. 26	N. A.		161.000c
MOODY'S BOND PRICES (Daily Averages):				
Average Corporate.....	Dec. 30	N. A.	52.62	55.18
Aaa.....	Dec. 30	N. A.	55.46	58.09
Aa.....	Dec. 30	N. A.	53.88	56.39
A.....	Dec. 30	N. A.	52.17	54.55
Baa.....	Dec. 30	N. A.	49.34	51.98
Railroad Group.....	Dec. 30	N. A.	52.55	54.69
Public Utilities Group.....	Dec. 30	N. A.	51.15	53.87
Industrial Group.....	Dec. 30	N. A.	53.54	56.17
MOODY'S BOND YIELD (Daily Averages):				
U.S. Government Short Term Bonds.....	Dec. 30	N. A.	8.09	7.59
Average Corporate.....	Dec. 30	N. A.	8.26	7.88
Aaa.....	Dec. 30	N. A.	7.84	7.48
Aa.....	Dec. 30	N. A.	8.07	7.71
A.....	Dec. 30	N. A.	8.33	7.97
Baa.....	Dec. 30	N. A.	8.79	8.36
Railroad Group.....	Dec. 30	N. A.	8.27	7.97
Public Utilities Group.....	Dec. 30	N. A.	8.49	8.07
Industrial Group.....	Dec. 30	N. A.	8.12	7.74
MOODY'S COMMODITY INDEX:				
.....	Dec. 30	N. A.	418.8	414.0
NATIONAL PAPERBOARD ASSOCIATION:				
Orders received (tons).....	Dec. 20	507,500	521,800	523,300
Production (tons).....	Dec. 20	527,500	521,200	529,100
Unfilled orders (tons) at end of period.....	Dec. 20	941,000	955,400	970,100
OIL PAINT AND DRUG PRICE INDEX—				
1959 AVERAGE equals 100.....	Dec. 26	107.36	106.37	106.79
ROUND-LOT TRANSACTIONS ON THE N.Y.S.E. FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS:				
Transactions of specialists in stocks in which registered:				
Total purchases.....	Dec. 5	8,412,174	6,431,020	9,736,780
Short sales.....	Dec. 5	1,693,600	1,333,030	2,588,250
Other sales.....	Dec. 5	6,553,470	5,267,490	7,136,890
Total sales.....	Dec. 5	8,247,070	6,600,520	9,725,140
Transactions of Floor Traders:				
Total purchases.....	Dec. 5	238,800	117,500	219,500
Short sales.....	Dec. 5	27,300	21,400	35,900
Other sales.....	Dec. 5	191,650	85,000	158,750
Total sales.....	Dec. 5	218,950	106,400	194,650
Other transactions:				
Total purchases.....	Dec. 5	3,658,826	2,592,446	3,601,050
Short sales.....	Dec. 5	670,970	671,750	669,980
Other sales.....	Dec. 5	2,829,908	2,188,210	3,722,092
Total sales.....	Dec. 5	3,500,878	2,859,960	4,392,032
Total round-lot transactions for account of members:				
Total purchases.....	Dec. 5	12,309,796	9,140,966	13,557,330
Short sales.....	Dec. 5	2,391,870	2,026,180	3,294,130
Other sales.....	Dec. 5	9,575,028	7,540,700	11,017,692
Total sales.....	Dec. 5	11,966,898	9,566,880	14,311,822
STOCK TRANSACTIONS FOR ODD LOT ACCOUNTS OF ODD LOT DEALERS ON THE N.Y.S.E.:				
Odd-lot sales by dealers (customers' purchases):				
Number of shares.....	Dec. 5	2,140,603	1,612,732	2,171,481
Dollar value.....	Dec. 5	\$87,120,030	\$69,675,835	\$97,711,638
Odd-lot purchases by dealers (customers' sales):				
Number of orders (customers' total sales).....	Dec. 5	2,629,631	1,937,453	2,688,690
Customers' short sales.....	Dec. 5	34,957	23,374	21,907
Customers' other sales.....	Dec. 5	2,594,674	1,914,079	2,666,783
Dollar value.....	Dec. 5	\$112,409,699	\$83,472,339	\$120,735,843
Round-lot sales by dealers:				
Total sales (shares).....	Dec. 5	1,155,690	816,320	1,179,510
Short sales.....	Dec. 5
Other sales.....	Dec. 5	1,155,690	816,320	1,179,510
Total Round-lot purchases by dealers (shares).....	Dec. 5	603,450	494,640	672,240
TOTAL REPORTED VOLUME OF ROUND LOT SALES ON THE N.Y.S.E. (SHARES):				
Short Sales.....	Dec. 5	3,343,410	2,761,140	4,043,800
Other Sales.....	Dec. 5	52,263,050	38,940,350	55,970,110
Total Sales.....	Dec. 5	55,606,460	41,701,490	60,013,910

N. A. - Not Available

Company Name	Offering Dated	Offering Price	Dec. 30 Bid Price	Company Name	Offering Dated	Offering Price	Dec. 30 Bid Price	Company Name	Offering Dated	Offering Price	Dec. 30 Bid Price	Company Name	Offering Dated	Offering Price	Dec. 30 Bid Price
Modular Housing Systems Inc.	Oct. 30	10	26	Pioneer Nursing Centers, Inc.	Sep 25	3	2	Sports Underwriters, Inc.	Aug 7	2 3/4	2 3/4	Triangle Mobile Home Products	Aug 28	12	9
Monroe Combining	Aug 8	9 1/2	4	Pizza Inn, Inc.	Jul 16	9	6 1/2	Square Industries	Sep 30	5	2 3/8	Tri-Wall Containers	Nov. 18	12	8 1/2
Motherhood Maternity Shops Inc	Dec 18	8	9 1/4	Plastic Carton Corp of America	Dec 5	5	8 1/4	Standard Computer Corp.	Dec 4	11	16 1/2	Tuftco Corp.	Nov. 13	12 1/2	9 3/8
Motor Valet Indus.	Aug 5	11	8	Prel Corp	Dec 11	7	5 7/8	Sterling Computer Systems, Inc.	Aug 28	8	10 1/2	Twin City Barge & Towing Co.	Oct 1	7	5 1/2
Mr. Gasket Co.	Dec 11	12	13 3/4	Presque Isle Paper Products, Inc.	Aug 29	5	3 3/4	Stevens (Ann), Inc.	Oct 29	5	3 3/4	Union Fidelity Corp	Oct 7	27 1/2	38
Multitech, Inc.	Sep 23	5 1/2	6	Price Capital Corp.	Sept. 8	20	12 1/4	Stewart Sandwiches	Jul 17	8 1/2	8 1/4	United Consolid. Industries, Inc.	Sep 25	7 3/4	6 3/8
Multivisions Corp.	Nov 7	5 1/2	5	Prime Equities Inc	Oct 23	6 1/2	8 3/4	Stratford of Texas	Dec 17	10	13 1/4	United-Overton	Aug 19	10	7 1/4
Myers (L.E.) Co.	Oct 28	18	21 1/8	ProChemco Inc	Jul 2	13	12 1/4	Strong Wear Hosiery Co.	Dec 2	6 1/4	4 1/4	United Research Homes, Inc.	Nov 3	10	15 1/2
My-Toy Co., Inc.	Nov 24	13	11 3/4	Project 7 Films Inc	Dec 1	4	12 1/2	Structural Foam Products, Inc.	Aug 18	4	2 1/2	Unity Capital Corp of America	Sep 25	10	6
Nantucket Industries, Inc.	Oct 2	6	3 3/4	Proof Lock Int'l.	Oct 2	5	4 3/8	Success Motivation Institute	Aug 5	15	31 1/2	Van Dyk Research	Oct 20	7	8 3/4
Nardis of Dallas	Oct 16	10 1/2	7 3/4	Punta Gorda Isles	Aug 26	11	21 1/4	Superior Industries International, Inc	Nov. 18	12 1/2	8 5/8	Vanguard Data Sys.	Oct 28	7	8 1/2
Nat'l Apparel Corp	Dec 2	6 1/4	4 1/4	RAF Industries Inc.	Oct. 14	5	4 1/2	Survival Technology, Inc.	Dec 16	15	12 3/4	Vanguard Diversified	Jul 9	6	2 3/4
Nat'l Color Labs Inc	Sep 12	5	2 3/4	RLL Corp.	Sep 30	8	5	Sycor, Inc.	Jul 16	20	20	Vanier Graphics	Aug 12	11 1/4	9 1/2
Nat'l Geriatric Centers, Inc.	Dec 16	7	5 3/4	Rainbo Photo Color Ranch House of America, Inc.	Sep 30	7 1/2	11 1/2	Symboite Displays	Sept. 8	7	7 1/4	Vast, Inc.	Nov. 18	7	4 3/8
Nat'l Housing Industries Inc	Dec 9	12 1/4	8 1/2	Rea, Roberts Associates	Jul 23	5	9 3/4	Synchronex Corp	Sep 25	7 1/2	16 1/4	Vestart, Inc.	Dec 18	6	5 1/2
Nat'l Identification Card Co., Inc.	Sep 17	3	3/4	Reinell Indus. Inc.	Sep 11	8 1/2	12 5/8	Synoptic Systems	Oct 6	5	21 1/2	Vicon Industries Inc	Dec 12	3 1/2	4
Natl. Industrial Services Corp.	Nov. 25	11	14 3/4	Reliance Pet Products Corp	Dec 11	5	4 1/2	Systems for Advanced Info.	Jul 8	5 1/2	3	Vintage Enterprises, Inc.	Sept 4	12 3/4	12 5/8
Nat'l Paragon Corp	Oct 7	9	7	Republic Powdered Metals, Inc.	Sep 23	8	6	Taco Ben	Nov 25	5	3 1/4	Virginia Int'l Co.	Dec 12	5	4
Nat'l Spinning Co.	Sep 18	13 1/2	9 3/4	Ridder Publications	Nov 26	22	21 3/8	Taco King, Inc	Oct 21	11	7	Wallace Leisure Products	Sep 23	6 1/2	9 1/8
Noble Lumber Corp	Aug 6	2 1/2	1 1/4	Roanna Togs Inc	Nov 25	5 1/2	4 1/2	Technicon Corp.	Sept 4	5	2 1/8	Walls Industries, Inc.	Oct 28	8	8 3/4
Norel Electronics Industries Inc	Oct 15	3 3/4	1 1/2	Robigo-Ladd Co.	Oct 30	10	7 3/4	Technitrend Inc	Dec 4	42	56	Ward Cut-Rate Drug	Sep 4	10	10
North Amer. Watch Numerax, Inc.	Dec 5	3	2 3/4	Robinson-Halpern Co	Dec 16	8	8 1/4	Technology Systems	Dec 10	12 1/2	14	Washington Homes, Inc.	Sept. 9	12	3 3/8
Oak Cliff Savings & Loan Assn	Jul 17	29	17 1/4	Ross Med. Corp	Dec 18	10	9 1/4	Tectra Industries	Dec 9	7 1/2	5 3/8	Wellington Eight Industries, Inc.	Dec 11	6	5 3/4
Oceanography Mari-culture Industries, Inc.	Sept. 4	7 1/2	18 1/2	Sage Systems Corp	Dec 23	3	3 1/2	Telecor, Inc.	Dec. 2	22	26	Western Beef Inc	Sept 3	7	7 1/2
Oceanography Un-limited Inc	Nov 25	8	6	Sap's Foods, Inc	Oct 16	8	4 1/2	Telernation Inc.	Jul 9	15 1/2	19 1/4	West Indies Enterprises, Inc.	Dec 16	15	13
Ocean Science & Engineering Inc	Nov 25	12 3/4	9 7/8	Sav-A-Stop Midwest	Nov. 13	10	8	Telesciences, Inc.	Jul 17	5 1/2	5	Weston (Roy F) Inc	Sept 30	7	6 3/4
Olson Labs., Inc.	Jul 2	4 1/2	8 1/4	Scanlan's Literary House, Inc.	Nov. 13	3	2 1/2	Teleworld, Inc.	Jul 1	7 1/2	2	Westwood, Inc.	Aug 26	10	6
Optivision, Inc.	Jul 29	6 1/2	7 1/4	Scan-Optics, Inc.	Dec 16	17 1/2	23	Temco Service Industries, Inc	Dec 23	11	11 5/8	Weston Art Corp	Nov 21	2 1/2	3
Orion Industries	Oct 30	13	10 3/8	Seafarro, Inc.	Sept. 4	6	7 5/8	Tennis Unlimited	Aug 4	5	6	Williams Craft Inc	Aug 12	7 1/2	10 1/2
Overmyer Corp	Sep 30	11 1/4	8 1/2	Security Int'l Inc	Dec 12	8 1/4	5 3/8	Ten-Da Brand Frozen Foods Inc	Oct 2	6	3 1/4	Willow Industries	Jul 14	4	2 3/4
Palomar Mortgage Investors	Nov. 14	25	24	Service Corp Int'l	Dec 5	14	19 1/4	Terminal Equip Corp.	July 28	10	40	Winde Group Inc.	Nov 13	7 1/2	14 1/2
Pan Hemisphere Transport Inc	Nov 19	6 3/4	7 1/2	Shapell Industries	Aug 26	21	22 1/2	Test Corp.	Oct 20	5	3 1/4	Wonder World Industries, Inc	Dec 18	7 1/2	7 1/2
Pan Ocean Oil Corp.	Sept. 3	8	32 1/2	Shirts Unlimited Franchise, Inc.	Dec 4	4	3 5/8	3H Building Corp.	Dec 23	13 1/2	13	Zavala-Riss Prod.	Aug 18	5	4 1/4
Pay 'n Pak Stores	Sep 18	10 1/2	8 1/4	Signal Analysis Industries Corp	Aug 22	5	3 3/4	Thriftway Leasing	Aug 12	8	7 1/4	Zemco Industries	Oct 28	5	4 3/4
Perfect Plus Hosiery	Jul 15	11 1/2	10	Sirco International	Nov 13	13	8 7/8	Torotel, Inc	Sep 12	5	3 3/4				
Petco Industries	Nov. 14	6 3/4	7 1/4	Site-Con Industries, Inc.	Sept. 8	5	2	Tower Products Inc	Sep 2	9	17 3/4				
Photo Data, Inc.	Nov. 18	5	2	Sloan Technology	Oct 16	11 1/2	16	Trailer Equipment Distributors Inc.	Oct 30	10 3/4	8 1/4				
Physics Int'l Co.	Dec 22	8 1/2	10 1/2	Smoke Watchers Intl	Aug 12	4	2 3/8	Transport Pool Corp	Oct 9	8	7 5/8				
				Southwest Leasing Corp.	Nov 6	5 1/4	4	Transmedia International Corp	Nov 6	5	4 3/4				
				Splentex, Inc	Oct 28	14	10 3/8								

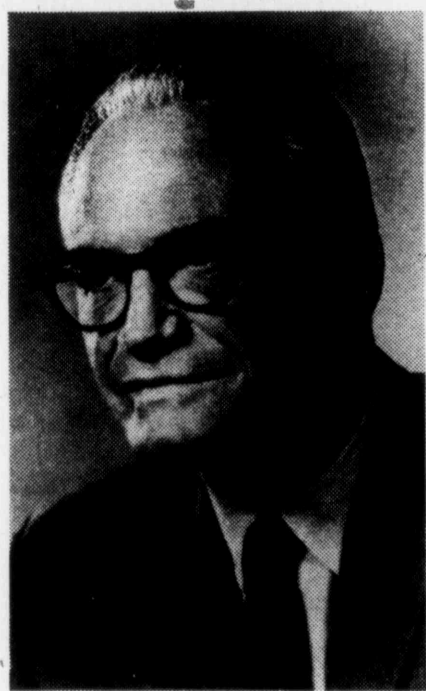
* New listed NYSE
 + New listed ASE
 n-Issue still in syndicate
 n-Nominal quotation
 x-sold ex-dividend

Financial Dinnerama January 8th

Former presidential candidate, Senator Barry Goldwater of Arizona, has been named the 1970 recipient of the "Good Scout" Award according to an announcement by Robert M. Gardiner, Managing Partner of Reynolds & Co. and Chairman of the Financial Dinnerama Committee.

The award is made annually at the dinner which climaxes Wall Street's fund raising effort on behalf of the Greater New York Councils of the Boy Scouts of America. Each year, Wall Street executives conduct a fund raising effort to raise monies to contribute to a New York metropolitan area campaign to raise a projected \$1,935,000 to further expand scouting activities in Greater New York. The drive concludes with the Financial Dinnerama which will be held in the Imperial Ballroom of the Americana Hotel, January 8, 1970. At the dinner the award is made to "a good scout who carries the spirit of the scout's 'good turn' into his adult life." Past recipients of the award include President Richard M. Nixon.

Mr. Gardiner also announced the following Dinnerama Committee appointments: A James Bach, Reynolds & Co.;



Barry Goldwater

Philip D. Baker, White Weld & Co.; Howard B. Dean, Reynolds & Co.; Robert S. Driscoll, Lord, Abnett & Co.; and Bernard J. Lasker, E.H. Stern & Co. were named co-chairman of the Financial Dinnerama Committee.

Henry M. Watts, Mitchell, Schreiber, Watts & Co. was named Chairman of the Advisory Board and the following were appointed to serve with him:

Howard E. Buhse, Hornblower & Weeks-Hemphill, Noyes; John A. Coleman, Adler, Coleman & Co.; Victor B. Cook, Merrill Lynch, Pierce, Fenner & Smith Inc.; James W. Davant, Paine, Webber, Jackson & Curtis; Robert W. Haack, New York Stock Exchange; Gustave L. Levy, Goldman, Sachs & Co.; Andrew J. Melton, Jr., Smith, Barney & Co. Incorporated; William E. Petersen, Irving Trust Company; John A. Roosevelt, Bache & Co. Incorporated; and Ralph E. Saul, American Stock Exchange.

Mr. Gardiner also announced the appointment of the following sub-committee chairmen: Publicity: Howard V. Calkins, Albert Frank-Guenther Law, Inc.; Accountants: Robert M. Finlayson, Ernst & Ernst; Commercial Banks: Charles D.M. Douglas, Irving Trust Company; Commodities: Donald B. Conlin, Reynolds & Co.; Credit Agencies: Preston K. Mears, Dun & Bradstreet; Floor Brokers, American Stock Exchange;

Also Bernard E. Teichgraber, Reynolds & Co.; Floor Brokers, New York Stock Exchange; Robert H. McCooey, Thomas F. Fagan & Co.; Investment Bankers; Philip D. Baker, White, Weld & Co.; Lawyers: Elliot H. Lombard, Townsend & Lewis;

Municipal and Government Bonds: Peter V. N. Philip, Equitable Securities, Morton & Co., Inc.; Mutual and Hedge Funds: Richard A.M.C. Johnson, Dreyfus Corporation; Over-The-Counter: Daniel D. McCarthy, Eastman Dillon, Union Securities & Co.; Savings Banks: John W. Larsen, Bowery Savings Bank; and Underwriters & Brokers: Philip D. Baker, White, Weld & Co.

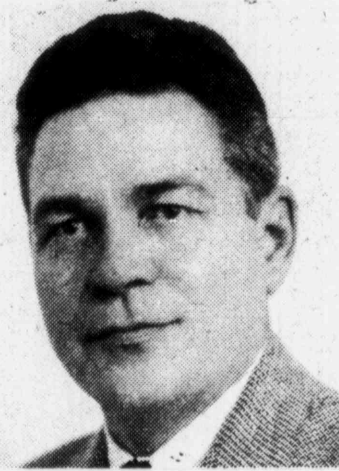
Estabrook Ltd. Names Two

Estabrook & Co., Ltd., the international affiliate of Estabrook & Co., 80 Pine Street, New York City, members of the New York Stock Exchange, has announced that Martin J. Haims has been appointed chairman of the Board and Gerald S. Haims has been elected president.

ADL Investment

DECATUR, GA. — ADL Investment Co., Inc. has been formed with offices in the First National Bank Building to engage in a securities business. Officers are Earl P. Paris, Jr., chairman, president and treasurer; Theodore R. Reynolds, vice president and secretary; and Robert L. Farmer, vice president.

Hakanen V.P. of Halsey Stuart



Paul A. Hakanen

CHICAGO, ILL. — Paul A. Hakanen has been elected a vice president of Halsey, Stuart & Co. Inc., 123 South LaSalle Street, it has been announced by Ernest B. Kelly, Jr., president of the investment banking firm. Mr. Hakanen, an assistant sales manager of the Chicago office, joined Halsey, Stuart early last month after many years service with John Nuveen & Co., Inc. in this city.

He joined Nuveen in 1945 as a sales representative and before leaving the firm was national sales manager, a senior vice president, a director and operations officer.



WASHINGTON AND YOU

BEHIND-THE-SCENES INTERPRETATIONS
FROM THE NATION'S CAPITAL

WASHINGTON, D.C. — In the massive tax reform measure passed and sent to the White House for President Nixon's signature, Congress made some interesting observations and recommendations in the conference report that accompanied the final version.

For example, the Senate tacked on to the House-passed bill an amendment that would have exempted the various states and municipalities from the requirement that they register with the Securities and Exchange Commission any industrial bonds which they propose to issue, if the issue qualified for tax exemption, including both the \$1 billion and \$5 billion exemptions.

The Senate and House conferees headed by Chairman Wilbur Mills of the House Ways and Means Committee and Senator Russell B. Long, Chairman of the Senate Finance Committee, omitted the provisions. Nevertheless, the conferees said flatly they are concerned at the time required and costs involved in connection with the issuance of industrial revenue bonds. Therefore, the conferees recommend to the Securities and Exchange Commission that it expedite these issues and, at the same time, reduce the registration requirements and costs of these small industrial bond issues.

One of the most discussed provisions in the tax reform measure was the depletion rate for both domestic and foreign oil and gas wells. The House-passed bill cut the percentage depletion rate from 27 1/2 per cent to 20 per cent. The Senate reduced it to 23 per cent. As finally approved, the depletion was reduced to 22 per cent.

In the case of other minerals which presently receive percentage depletion at the rate of 23 per cent, the rate was reduced to 22 per cent. For minerals which presently receive depletion allowances at the rate of 15 per cent, the rate was reduced to 14 per cent except in the case of domestic gold, silver, oil shale, copper and iron ore.

The provision in the tax reform bill that will be popular with the individuals everywhere is the personal exemption for income tax purposes. The measure sent to President Nixon's desk increases the personal exemption to \$625 for calendar year 1970, to \$650 for 1971, to \$700 for 1972, and to \$750 for 1973 and thereafter.

\$2.5 Billion Revenue Loss

President Nixon said the Administration is compelled to make some marked changes in the budget "because there is a \$2.5 billion shortfall which resulted from the tax bill." He added: "While the action of the conference committee very commendably reduced substantially the amount of loss

of revenue that would have come had the Senate bill passed, it would still provide \$2.5 billion less for fiscal 1971 than would have been the case had the Administration bill been passed."

When the President asked Budget Director Robert Mayo how he was going to solve the reduced income problem (in the face of the increased spending voted by Congress), Mr. Mayo said: "We are pinching very tight, closing every zipper between expenditures and revenue."

Under the terms of the new tax reform measure, a tax of 4 per cent on the net investment income of each private foundation is levied for the taxable year. Both the House and Senate conferees agreed to the effect that where stock is bought and sold by a foundation in order to manipulate the price of stock for the benefit of a "disqualified" person, then the foundation's assets have been used for the benefit of a "disqualified" person.

Complicated Statute

The new tax statute is so highly technical that tax attorneys and accountants are going to have a field day in interpreting the provisions and filing both individual and corporate income tax reports.

The new legislation liberalizes moving expenses. It authorizes up to \$2,500 under certain conditions. The provision provides that the taxpayer's new principal place of work must be located at least 20 miles farther from his former residence than his former place of work.

Under the statute the 7 per cent excise tax on local and toll telephone service and the 10 per cent excise tax on automobiles are extended until January 1, 1971.

Under the Subtitle B-Debt-Financed Acquisitions and Related Problems, the new legislation disallows a deduction for interest on bonds issued in connection with the acquisition of a corporation "where the bonds have specified characteristics which makes them more closely akin to equity." However, the disallowance rule only applies to bonds and debentures issued by a corporation to acquire stock in another corporation or to acquire at least two-thirds of the assets of another corporation which have three characteristics:

The bonds are subordinated to the corporation's trade creditors; the bonds are convertible into stock or are issued as an investment unit including warrants.

The new statute requires individuals who hold state and local bonds and file tax returns, to include information on their municipal securities holdings, and untaxed persons who earn \$600 or more from municipals to file information returns.

It repealed the 7 per cent



Walston Elects Four



Christopher P. Sweeny



Andrew J. Jennings



George C. Cabell

Walston & Co., Inc., 74 Wall Street, New York City, member of the New York Stock Exchange, has announced the promotions of four executives of the firm.

George C. Cabell, a vice president, has been named secretary and head of the firm's legal department, succeeding James E. White, who retired October 31.

Andrew J. Jennings, vice president and manager of the municipal department for the West Coast division, has been

named a voting stockholder. He makes his headquarters at the firm's San Francisco offices, 265 Montgomery Street.

Dr. Harvey Krow, an account executive in the Pittsburgh office, 3 Gateway Center, has been elected a vice president. Dr. Krow is an economist and visiting associate professor of economics at the University of Pittsburgh.

Christopher P. Sweeny has been elected a vice president and manager of institutional municipal sales for the New York City and eastern division.

Laird, Bissell Elects Officers

WILMINGTON, DEL. — Laird, Bissell & Meeds, Inc., members of the New York Stock Exchange, have announced that the following were elected vice presidents: Alvin S. Bader, Donald W. Vreeland, John W. Kellar, Frederick T. J. Clement and Edgar J. Loftus.

At the same time it was announced that the following were named assistant vice presidents: Perry L. Arricale, William J. Downey, Jr., Clemace

investment tax credit, with certain exceptions. It also allowed a five-year amortization deduction for certain pollution-control facilities. It also allowed a five-year amortization for certain new railroad rolling stock placed into service before January 1, 1975.

(This column is intended to reflect the 'behind-the-scenes' interpretation from the nation's Capital and may or may not coincide with the Chronicle's own views.)

R. Valiant, Ned C. Alphina, Louis J. Sneed 111, Joseph R. Quigley, Robert Benezra, Francis M. Kelly, Graham R. Stellwagon, William C. Hayes and Miss Eileen A. Wilson became Assistant Secretary.

Laird, Bissell & Meeds, Inc. founded in 1898, is the oldest and largest investment firm in Wilmington. The firm is also a member of the American Stock Exchange, and maintains offices in New York, Zurich, Salisbury, Md.; Dover and Newark, Delaware; Boston, Hartford, and Fort Lauderdale, Boca Raton, Winter Park, Florida.

T. S. P. Securities

ATLANTA, GA. — T. S. P. Securities Underwriters, Inc. is engaging in a securities business from offices at 230 Peachtree Street, Northwest. Officers are John S. Trent, Oliver L. Pedigo and Frederick W. Worrell.

Witter Promotes W.P. Clark



William Patrick Clark, Jr.

William Patrick Clark, Jr. has been promoted to First Vice President and appointed Money Manager of Dean Witter & Co., 14 Wall Street, New York City, the firm announced.

Mr. Clark joined Dean Witter in New York City as Branch Liaison Manager for the Eastern Division in 1967. He was named Manager of Dean Witter's Money Management Department in N.Y.C. in March of this year. He will be responsible for developing, coordinating and directing money management programs for the firm. Prior to coming with Dean Witter & Co., Clark was in the corporate finance department of another investment firm.

Dean Witter & Co., headquartered in San Francisco, serves investors in 67 offices throughout the United States and in Canada and England. The firm is a member of 17 stock and commodity exchanges, including the New York and American stock exchanges.

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